Agenda Item No. 7

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based upon advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

Audit Committee – 11th February 2010

Report of the Interim Director of Finance

Treasury Management

Purpose of Report

1. The purpose of this report is:

- to outline treasury activity in the year 2009/10 up to the end of December;
- to seek approval to adopt the revised CIPFA Code of Practice on Treasury Management in the Public Services 2009;
- to seek approval of the Treasury Strategy Statement 2010/11.

Background

2. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund *(WMDAF)*. We are responsible for administering capital funding of £384m on our own account and another £220m on behalf of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

Treasury activity 2009/10 - Dudley fund

3. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates with the economy in recession. The Bank Rate has remained at 0.5% since March 2009 and is likely to stay at that level for at least the remainder of the financial year. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated between 4.18% and 4.85% during 2009-10 and was standing at around 4.5% in mid January 2010.

4. The performance of our investments is largely dependent on movements in short-term *(up to one year)* rates. Our latest forecast for the average return on our investments for the year 2009/10 is 1.26%. The average 7-day LIBID[1] for the financial year to mid-January has been 0.43%.

5. The returns outlined above have been achieved without compromising on the security of the Council's investments. We have maintained and continue to maintain an approved investment list that sets the highest rating standards. For that reason we have never invested with Northern Rock or the Icelandic Banks. However, it has become difficult to find counterparties where investments can be made for a reasonable return. We have an account with the Government's Debt Management Office which provides maximum security but low returns. We are only using this account where we cannot place funds with a bank that meets our strict criteria. The majority of short term investments are now in variable rate call accounts with approved counterparties which are offering a relatively good rate of return compared to fixed term deposits.

Treasury activity 2009/10 - WMDAF

6. Having consulted with our advisors at Sector Treasury Services, we did not identify any opportunities to improve our position by restructuring of debt. The latest estimate of interest payable by members of the WMDAF in 2009/10 is 6.7%.

The Revised CIPFA Treasury Management Code of Practice 2009

7. In the light of the Icelandic situation in 2008, CIPFA has amended the Treasury Management in the Public Services Code of Practice (the Code). It is a requirement of the Code that this Council should formally adopt the Code. Appendix 1 contains four clauses which the Council is asked to incorporate into its standing orders, financial regulations, or other formal policy documents in order to adopt the revised Code. It is proposed that these clauses be incorporated into the Council's Financial Regulations.

8. The Code emphasises a number of key areas including:

- that effective management and control of risk are the prime objectives of the Council's treasury management activities
- the prioritisation of security and liquidity ahead of yield when investing funds;
- that responsibility for risk management cannot be delegated to any external organisation;
- that as well as credit ratings, importance should also be attached to other sources of information such as market data, the quality financial press, information on government support for banks and the credit ratings of that government support;

[1] 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

- that borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.

These are all principles that have informed this council's approach to treasury management for a number of years. The Council has a Treasury Policy Statement and Treasury Management Practices that set out the ongoing framework for treasury management. It is proposed that the detail of these be reviewed over the coming months and that any significant changes be reported to Audit Committee in September. The Council also sets an annual Treasury Strategy Statement relating to the year ahead. The requirements of the new Code have been considered in formulating the proposed Treasury Strategy Statement 2010/11 (see below).

9. The Code advises that members should be provided with access to relevant training and those charged with governance are also personally responsible for ensuring that they have the necessary skills and training. This issue was noted in the September report to Audit Committee and relevant training is being organised.

<u>Treasury Strategy Statement 2010/11</u>

10. The Treasury Strategy Statement covers our latest capital funding requirements, our view of interest rate movements and our strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The Treasury Strategy Statement for 2010/11 is attached as **Appendix 2**.

11. Our expectations for interest rates over the next twelve months, which are the best prediction we can make in very uncertain market conditions and which will be subject to continuous review with our treasury advisors, are as follows:

- **Short-term rates.** The Bank Rate will remain at 0.5% until the third quarter of 2010/11 rising to around 1.5% by March 2011.
- **Long-term rates.** The 25-year PWLB rate will rise through 2010/11 to around 4.9%.
- **Very long-term rates**. The 50-year PWLB rate will rise through 2010/11 to around 5.0%.

12. The Local Government Act 2003 introduced a system of "prudential borrowing" allowing councils to set their own borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code which specifically requires us to set a number of prudential indicators. The full range of prudential indicators is to be considered by the Cabinet on 10th February 2010. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

13. Councils' investment activities are regulated by government guidance issued under Section 15(1)(a) of the Local Government Act 2003. Section 5 of the Treasury Strategy Statement constitutes an "Annual Investment Strategy" produced in accordance with the government guidance. The proposed Strategy

takes account of guidance to the revised CIPFA Code of Practice on Treasury Management in the Public Services 2009, requiring that we use information from all of the main credit-rating agencies rather than just one.

14. The Department for Communities and Local Government issued draft revised guidance on Changes to the Capital Finance System in November 2009 which included a section on the Annual Investment Strategy. The consultation period for the guidance ended in January 2009 and final guidance is expected soon. The Annual Investment Strategy is broadly in compliance with the proposed guidance. If amendments are required when the guidance is finalised, an updated Investment Strategy will be presented to Audit Committee to recommend for approval by Council.

15. In order to protect the Council's position if an individual or organisation were to act upon the views expressed in this report, we have deemed it necessary to produce a disclaimer which is shown as a note at the head of the report and Appendix 2.

Finance

16. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. In previous years the Treasury Management budget has generated substantial budget surpluses but returns have reduced substantially in 2009-10. Current prudent forecasts indicate an outturn to budget based on prudent assumptions and the final outturn is expected to improve beyond this position.

Law

17. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

Equality Impact

18. The treasury management activities considered in this report have no direct impact on issues of equality.

Recommendation

19. That the Committee:

- notes the treasury activities in 2009/10 outlined in this report;
- agrees to adopt the revised CIPFA Treasury Management Code of Practice 2009;
- agrees to incorporate the four amended clauses detailed in Appendix 1 into the Council's Financial Regulations;
- approves the Treasury Strategy 2010/11 attached as Appendix 2;

- authorises the Director of Finance to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;
- refers all of the above for approval by full Council.

…………………………………………..
Bill Baker
Interim Director of Finance

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List of Background Papers

- Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.
- The Local Government Act 2003
- The Prudential Code for Capital Finance in Local Authorities (CIPFA)
- Guidance on Local Government Investments Issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003
- Code of Practice for Treasury Management in the Public Services (CIPFA)

Appendix 1

ADOPTION OF THE REVISED CIPFA TREASURY MANAGEMENT CODE OF PRACTICE 2009

1. This council will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), 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.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

2. This council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

3. This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Appendix 2

Note:

It is important to note that the Treasury Strategy Statement is adopted by the Council, based on advice from its external Treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Council. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Council and its Treasury advisors will not accept any liability on behalf of any individual or organisation that seeks to act on the financial information contained within this Report and Statement.

DUDLEY METROPOLITAN BOROUGH COUNCIL
TREASURY STRATEGY STATEMENT 2010/11

1.0 INTRODUCTION

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2010/11. The suggested strategy is based upon officers' views of interest rates as advised by external advisors, supplemented with leading market forecasts. It should be noted that the use of expert external advisors does not remove the responsibility of Members and officers for treasury management functions and that those functions cannot be delegated to any outside organisation. The strategy covers:

- the current portfolio position
- prudential indicators
- prospects for interest rates
- temporary investment strategy
- requirements and strategy for long-term borrowing
- debt rescheduling and premature repayment opportunities

2.0 CURRENT PORTFOLIO POSITION

2.1 The Council's estimated debt position as at 1st April 2010 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	217.2
- Market fixed rate	6.8
- Market LOBO[2]	10.0
Short-term debt	0.2
Total debt	234.2

2.2 The average rate of interest on the above debt is expected to be 5.3%.

[2] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2009 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

2.3 The average level of investments held by the Council during 2009/10 to the end of December was £40m. Cash flow monitoring indicates that long term borrowing will be required in the next 12 months and will be potentially dependent to some extent on the amount and timing of Equal Pay Back Pay settlements.

2.4 The Council also administers the debt of the former West Midlands County Council on behalf of the West Midlands districts. The estimated debt position at 1st April 2010 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	197.8
- Market fixed rate	6.8
- Market LOBO[3]	10.0
Short-term debt	0
Total debt	214.6

2.5 The average rate of interest charged to the West Midlands fund is expected to be 6.7%.

3.0 PRUDENTIAL INDICATORS

3.1 The 2003 Prudential Code for Capital Finance in local authorities requires the Council to set a number of prudential indicators, certain of which replace the borrowing/variable interest limits previously determined as part of the strategy statement, whilst also extending the period covered from one to three years.

3.2 The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy. We are still evaluating the impact of new accounting arrangements which will bring "PFI" and similar schemes onto the Balance Sheet from 2009/10, and other Finance Leases from 2010/11. The indicators below do not reflect these changes, and should be read as if the 2008/09 accounting arrangements still applied. They will therefore need to be amended as necessary in due course once the impact of the changes is finalised.

External debt

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. It has been calculated to take account of the Council's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. The operational boundary for external debt has

[3] Lenders Option Borrowers Option (LOBO). This loan was at a fixed rate of 4.6% until February 2007 after which the rate may be varied at the lender's option. If the lender exercises this option to vary the rate then we, as the borrower, have the option to repay the loan.

also been calculated with regard to the Council's capital expenditure and financing plans allowing for the most likely, prudent, but not worst case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant. Actual external debt represents the closing balance for borrowing and other long-term liabilities.

	2008/09	2009/10	2010/11	2011/12	2012/13
			Revised	Revised	
	£m	£m	£m	£m	£m
Authorised limit for external debt:					
Borrowing	n/a	651	663	679	674
Other long term liabilities	n/a	4	6	7	8
Total	**n/a**	**655**	**669**	**686**	**682**
Operational boundary:					
Borrowing	n/a	589	621	621	621
other long term liabilities	n/a	4	6	7	8
Total	**n/a**	**593**	**627**	**628**	**629**
Actual External Debt:					
Borrowing *	444.4	n/a	n/a	n/a	n/a
Other long term liabilities*	1.5	n/a	n/a	n/a	n/a
Total	**445.9**	**n/a**	**n/a**	**n/a**	**n/a**

The adoption of International Financial Reporting Standards will have the effect of bringing some PFI schemes on balance sheet and potentially reclassify some operational leases as finance leases (and vice versa). The exercise of quantifying the effects of the change in accounting treatment is on-going and the outcome is likely to amend the value of Actual External Debt from 2009-10 onwards

CIPFA Code of Practice for Treasury Management in the Public Services

The Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services in March 2002 and the covering report to this Strategy proposes that the 2009 Code should now be adopted.

Interest rate exposures

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt. The upper limit for variable rate exposure allows for the use of variable rate debt to offset our exposure to changes in short-term rates on our portfolio of investments. This limit reduces over time as our strategy is to gradually reduce our level of investments.

	2009/10	2010/11	2011/12	2012/13
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	15	10	10	10

Maturity structure of borrowing and investments

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. On the basis of prudent treasury management the proposed upper limit on principal maturing in any one year for sums invested for over 364 days is £10m.

The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %
under 12 months	10	0
12 months and within 24 months	10	0
24 months and within 5 years	15	0
5 years and within 10 years	25	0
10 years and above	100	40

4.0 PROSPECTS FOR INTEREST RATES

4.1 The Council has appointed Sector Treasury Services as its main treasury advisor and has made use of their services in formulating a view on interest rates. Sector has in turn drawn upon the work of a number of City economic forecasters.

Background

- The banking near-collapse in September 2008 led to a very sharp recession in 2009 accompanied by a dearth of lending from banks anxious to rebuild their weakened balance sheets. Many governments were forced to recapitalise and rescue their major banks and central banks precipitately cut their bank rates to 0.1 – 1.0% in order to counter the recession.
- The USA and EU had come out of recession in Quarter 3 2009. The UK showed growth of just 0.1% in Quarter 4.

- Inflation has plunged in most major economies and is currently not seen as being a problem for at least the next two years due to the large output gaps and high unemployment putting a lid on wage growth.
- Deflation could become a threat in some economies if they were to go into a significant double dip recession.
- Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate.

Prospects for Economic Growth in the UK

We are currently in unchartered economic territory due to the unique nature of the recession:

- If we get a strong recovery GDP growth will almost get back to the long term average of about 2.5% in 2011 but is likely to peak in the first half of the year as inventory rebuilding and stimulus measures fade and fiscal contraction kicks in later in the year. Repayment of debt by over-borrowed banks, businesses and consumers could dampen growth by countering the increase in demand and knock growth to a more modest 1.5% in 2011.
- The economy could rebalance with strong growth in exports and import substitution helped by strong recovery in the EU and the rest of the world. However, fiscal contraction could further dampen economic recovery driven by a strong political agenda to accelerate cuts in public expenditure and increases in taxation after the general election in 2010.
- Growth could also be hampered by a reduced supply of credit from weakened banks compounded by weak demand for credit
- Sterling has depreciated by 25% since the peak in 2007 and is likely to stay weak.
- Consumer incomes are likely to be held down by wage freezes and increases in taxation.
- House price recovery is expected to persist helped by a low Bank Rate, and CPI inflation is likely to peak in early 2010 after the rise in VAT in January but then to fall to a trough near 1.5% in early 2011 and to stay below 2% for the rest of 2011. However, deflation may be a danger for some years and CPI inflation may dip to -1% in 2011.
- The current Monetary Policy Committee (MPC) attitude is to hang on as long as possible before increasing the Bank Rate to try to ensure that growth gets going at a decent rate before increasing the rate. The first increase could be expected in Q3 2010 but a more aggressive fiscal approach could delay the timing of a Bank Rate rise to as late as 2012 or beyond. The current output gap of 6% and fiscal contraction could keep a lid on inflation for up to 5 years.
- The fiscal deficit is 6.4% of GDP, about £90bn, which is expected to fall at £11bn p.a. over eight years at currently planned rates. This is similar to the peak deficit of 7% in the 1990s which was remedied to a surplus of 1.6% in the space of 6 years helped by strong, steady economic growth of 3% p.a. supported by loose monetary policy that compensated for the fiscal squeeze.
- Gilt yields, especially longer term ones, are currently artificially low due to the Bank of England’s Quantitative Easing operations. £200bn of gilts, commercial bonds

and paper are being purchased under this scheme which has inflated prices and depressed yields. Once this campaign ends, yields will inevitably rise but will also rise due to the huge level of issuance of new gilts to finance the fiscal deficit. Long gilt yields are therefore forecast to reach 6% during 2011.

- Gilt yields could rise higher if there was a hung Parliament in 2010 or if the fiscal situation deteriorates further.
- Long PWLB rates could also fall from current levels to near 4% in 2010 due to weak economic recovery and minimal inflation so that the real rate of return (net of inflation) on long gilts is healthy at these low levels.

4.2 There are huge uncertainties in all forecasts due to the unique set of current circumstances. On balance we do, however, feel that the risks that long term gilt yields and PWLB rates will rise markedly are high.

4.3 Our view is that a moderate return to growth is likely. The overall balance of risks is weighted to the downside i.e. the pace of economic growth will be low and Bank Rate increases are delayed.

4.4 We have arrived at the following view of the prospects for interest rates over the next twelve months:

- **Short-term rates.** The Bank Rate will remain at 0.5% until the third quarter of 2010/11 rising to around 1.5% by March 2011.
- **Long-term rates.** The 25-year PWLB rate will rise through 20010/11 to around 4.9%.
- **Very long-term rates**. The 50-year PWLB rate will rise through 20010/11 to around 5.0%.

4.5 Our overall strategy will be based on the projections above. However, we will maintain flexibility to take account of unexpected variations from our forecast.

5.0 ANNUAL INVESTMENT STRATEGY

5.1 Our investment activities are subject to government guidance issued under Section 15(1)(a) of the Local Government Act 2003. This section of the Treasury Strategy Statement constitutes an “Annual Investment Strategy” produced in accordance with the guidance.

5.2 In making investment decisions, our priorities will be security of council funds and liquidity. We will pursue the best possible return on our investments, but only to the extent that this is consistent with very low levels of risk in terms of security and liquidity.

5.3 *Strategy for “specified investments”*

5.3.1 The Council will make use of specified investments (as defined within the terms of the government guidance). These are investments that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Council may require that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003.
d) The investment satisfies *either* of the following conditions:
    I. The investment is made with the UK government, a local authority, a parish council or a community council.
    II. 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.

5.3.1 For the purposes of this strategy we define a “high credit rating” as follows:

- For banks and building societies:
    - No less than the highest short-term rating from 2 of the 3 main credit rating agencies[4] and no less than the second highest short-term rating from the third of those agencies; and
    - For a UK institution, a support rating[5] of 1 or 2; for a non-UK institution, a support rating of 1; and
    - For a non-UK institution a sovereign rating of AAA from all three main rating agencies.
- An investment scheme investing in (non-UK) government paper with a long-term rating of AAA.

5.3.2 We will monitor credit ratings constantly through the receipt of credit rating bulletins from our treasury management consultants at Sector Treasury Services. Where institutions cease to meet the criteria above, or where information from other sources indicates concerns, we will suspend investment activity with those institutions.

5.4 *Strategy for “non-specified investments”*

5.4.1 Non-specified investments are those that do not meet the criteria in 5.3.1 above.

5.4.2 In determining which categories of non-specified investments may prudently be used, we will take account of:

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[4] Fitch, Moody’s and Standard and Poors.
[5] Fitch.

- Advice from our treasury management consultants at Sector Treasury Services and Arlingclose.
- The views of experts at other councils.
- To the extent that investments are for a duration of 12 months or more, long-term credit ratings as determined by Fitch IBCA.

5.4.3 We have so far identified the following categories of investment as prudent for use. The table also shows a maximum proportion of our pool of investments that may be held in any one category:

Category of investment	**Maximum for this category of investments as a proportion of total investments (at the time of making a new investment)**
Sterling-denominated euro-sterling bonds issued by supra-national institutions with a long-term credit rating of AAA.	25%
Investments (up to three months) in banks or other financial institutions that are wholly-owned by the UK Government	25%

5.5 *Liquidity of investments*

5.5.1 In determining the maximum period for which investments may be held, we will have regard to our most recent cash-flow forecast. We will not enter into an investment where our cash-flow forecast indicates that, as a result of that investment, we would be forced to borrow money in a future year that we would not otherwise have had to borrow.

5.5.2 We will ensure that, at the time of making a new investment, long-term investments (investments of one year's duration or more) constitute no more than 50% of our total pool of investments.

5.6 Limit on investments with a single institution

5.6.1 Investments with a single institution or group of banks should not exceed 20% of our total pool of investments or £5million (whichever is greater).

6.0 REQUIREMENTS AND STRATEGY FOR LONG-TERM BORROWING

6.1 The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We may elect to borrow one or two years in advance of anticipated need if we judge that this is necessary in order to avoid being forced to borrow at higher rates at a later date.

6.2 Our interest rate expectations (outlined in 4.4) provide a variety of options:

- that short-term variable rates will be good value compared to long-term rates, and are likely to remain so for potentially at least the next couple of years. Best value will therefore be achieved by borrowing short term at variable rates in order to minimise borrowing costs in the short term.

- that the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2010/11, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

6.3 Against this background caution will be adopted with the 2010/11 treasury operations. The Director 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. In conjunction with the treasury advisers, we 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, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are 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 growth rates remaining low or weakening, then long term borrowings will be postponed.

6.4 With respect to the West Midlands Debt, variances due to timing differences between the maturity profile of the debt and repayments from authorities can be managed by short term borrowing in 2010-11. As a result, we do not anticipate that further long-term borrowing will be needed during 2010/11. We shall take out long term borrowing on West Midlands debt when it is economically advantageous to do so.

7.0 DEBT RESCHEDULING AND PREMATURE REPAYMENT OPPORTUNITIES

7.1 We may consider rescheduling or premature repayment with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in 6 above;
- in order to enhance the balance of the long-term portfolio *(by amending the maturity profile and/or the balance of volatility).*

7.2 Any rescheduling or premature repayment will be reported to an appropriate committee at the meeting following its implementation.