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.

Meeting of the Council – 28th February, 2011

Report of the Audit Committee

Treasury Management

Purpose of Report

1. The purpose of this report is:

   - to outline treasury activity in the year 2010/11 up to the end of December;
   - to seek approval of the Treasury Strategy Statement 2011/12.

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 £399m on our own account and another £216m on behalf of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

3. Our borrowing and investment activities in the current year have been undertaken in the context of historically low interest rates. 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.

Treasury activity 2010/11 - Dudley fund

4. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2010/11 approved by Audit Committee and Full Council in February 2010. In that document we anticipated that long term borrowing would be required in the next 12 months

5. Our investments up to the middle of January have averaged around £36.8 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.87%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2010/11. The performance of our investments is largely dependent on movements in short-term (up to one year) rates. The average 7-day LIBID[1] for the financial year to mid-January has been 0.43%. Our investment activity for 2010/11 (to date) is set out in more detail in Appendix 1.

6. 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. 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 short-term fixed term deposits.

7. The average value of long-term borrowings up to the end of December 2010 has been £211.3 million. The average rate of interest on these borrowings was 5.6% and they were due to mature on dates ranging from the current year to 2058.

8. The rate for a 50-year loan from the Public Works Loan Board (PWLB) has fluctuated during 2010-11 from 3.93% in August 2010 to about 5.40% in mid January 2011. The increase was mainly due to the Comprehensive Spending Review in October which raised PWLB rates to one percent above UK government gilts.

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9. It has not as yet been necessary to undertake any new long-term borrowing due to favourable cash flow, but we are monitoring interest rates and cash flow closely. We continue to anticipate that action may be required in the next few months.

10. It has not been necessary to undertake any short-term borrowing in the current year to date. Daily cash flow has been managed through the use of call accounts.

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

Treasury activity 2010/11 - WMDAF

11. 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 2010/11 is 6.6%.

Treasury Strategy Statement 2011/12

12. 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 2011/12 is attached as **Appendix 2**.

13. Our expectations for interest rates over the next twelve months, 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 2011/12 rising to around 1.0% by March 2012.
- **Long-term rates.** The 25-year PWLB rate will rise through 2011/12 to around 5.7%.
- **Very long-term rates**. The 50-year PWLB rate will rise through 2011/12 to around 5.7%.

14. 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 9th February 2011. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

15. 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 and revised CIPFA Code of Practice on Treasury Management in the Public Services 2009.

16. 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.

17. The Audit Committee at its meeting held on 10th February, 2011 considered this matter and their agreed recommendations to Council are set out in paragraph 21 below.

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[2] 7-day LIBID is a measure of the average return from a 7-day investment on the London money market.

Finance

18. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates. Budgets were amended in September to reflect a surplus of £1.3m compared to the original budget for 2010/11. This surplus was mainly due to variations in cash flow. Current prudent forecasts indicate an outturn to revised budget based on prudent assumptions and the final outturn is expected to improve beyond this position.

Law

19. 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

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

Recommendation

21. That the Council:

- notes the treasury activities in 2010/11 outlined in this report;
- approves the Treasury Strategy 2011/12 attached as Appendix 2;
- authorises the Treasurer to effect such borrowings, repayments and investments as are appropriate and consistent with the approved Treasury Strategy and relevant guidance;

…………………………………………..

Chairman of the Audit Committee

Appendix 1

Investment Activity 2010/11 to 24th January 2011

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Barclays Bank Direct	1	0.2	0.30	14
Barclays Treasury Direct	16	2.8	0.39	10
Debt Management Office	7	0.1	0.25	3
Nationwide Building Society	4	1.7	0.34	18
Bank of Scotland Call account	N/A	6.1	0.75	Call
Royal Bank of Scotland Call account	N/A	4.9	0.80	Call
Nat West Call Account	N/A	4.5	0.80	Call
Santander Call account	N/A	9.1	0.80	Call
Yorkshire Bank Call account	N/A	6.9	0.75	Call
Salford City Council	1	0.5	11.25	Matures in 2020

The table above includes investments that commenced during 2009/10 and were due to mature in the current financial year.

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 2011/12

1.0 INTRODUCTION

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2011/12. 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 and treasury 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 2011 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	192.3
- Market fixed rate	6.8
- Market LOBO[3]	10.0
Short-term debt	0.2
Total debt	209.3

2.2 The average rate of interest on the above debt is expected to be 5.5%.

[3] 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 2010/11 to date was £36.8m. 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 It was announced in October 2010 that the self financing of Housing Revenue Account (HRA) will be introduced on 1st April 2012. There will be a revised policy document issued shortly to give further details. It is proposed that that the Council Housing subsidy system be removed by offering a one-off redistribution of debt. The impact on Dudley is not yet known and it may be necessary to revise this Strategy once details are released.

2.5 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 2011 is as follows:

	£m
Long-term debt:	
- PWLB fixed rate	190.2
- Market fixed rate	6.8
- Market LOBO[4]	10.0
Short-term debt	6.3
Total debt	213.3

2.6 The average rate of interest charged to the West Midlands fund is expected to be 6.6%.

3.0 PRUDENTIAL AND TREASURY INDICATORS

3.1 Under the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, local authority capital spending and its borrowing to fund that spending is limited by what is affordable, prudent and sustainable. The Prudential Code sets out a number of indicators that enables the authority to assess affordability and prudence. The Prudential Indicators that related to Treasury Management which were reclassified as Treasury Indicators in the recent revisions of the Codes are:

- Adoption of the Revised CIPFA Code of Practice for Treasury Management
- Upper limit for Fixed Rate Exposure
- Upper Limit for Variable Rate Exposure
- Limits on the Maturity Structure of Borrowing
- Values of Total Principal Sums Invested longer than 364 days

[4] 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.

In addition the Prudential Code requires that the total external debt does not exceed the Authorised Limit for external debt and only exceeds the Operational Boundary for external debt temporarily on occasions due to variation in cash flow. Full Council sets the Authorised Limit and the Operational Boundary.

3.2. The following indicators are relevant for the purposes of setting an integrated treasury management strategy. The implementation of International Financial Reporting Standards (IFRS) for financial accounting in local authorities has resulted in assets and liabilities relating to PFI-type schemes and some leases coming on to the Council's balance sheet as other long-term liabilities. Work is still on-going in this area in preparation for closing the 2010/11 accounts on an IFRS basis, but the indicators below include our current best estimate of the value of such liabilities
.

These external debt 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 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.

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
			Revised	**Revised**	
	£m	**£m**	**£m**	**£m**	**£m**
Authorised limit for external debt:					
Borrowing	n/a	666.6	689.4	675.3	655.7
Other long term liabilities	n/a	44.3	47.0	49.7	52.2
Total	**n/a**	**710.9**	**736.4**	**725.0**	**707.9**
Operational boundary:					
Borrowing	n/a	476.0	586.6	589.6	583.1
other long term liabilities	n/a	44.3	47.0	49.7	52.3
Total	**n/a**	**520.3**	**633.6**	**639.3**	**635.4**
Actual External Debt:					
Borrowing *	427.2	n/a	n/a	n/a	n/a
Other long term liabilities*	31.1	n/a	n/a	n/a	n/a
Total	**458.3**	**n/a**	**n/a**	**n/a**	**n/a**

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 (revised November 2009) in 2010.

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.

	2010/11	**2011/12**	**2012/13**	**2013/14**
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	10	10	10	10

Maturity structure of borrowing and investments

The purpose of the 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.

Economic Background

Global economy

- The sovereign debt crisis in Greece culminated in the European Union (EU) and the International Monetary Fund (IMF) putting together a €750bn support package in May 2010. A second crisis over Ireland in November, culminated in Ireland also having to take a bail out. At the time of writing. there is major concern that Portugal will also shortly need to take a bail out. That, in turn, would then stoke major concerns as to whether the current size of the EU/IMF bail out facility would be big enough to cope with any crisis over Spanish government debt.

- The unexpectedly high rate of growth in quarters 2 and 3 of 2010 in the UK and the Euro zone in Q2 were driven by strong growth in the construction sector catching up from inclement weather earlier in the year and by other short term factors not expected to be enduring; general expectations are for weak (but not negative) growth in 2011 in the western world.

UK economy

- The government has put in place a plan to reduce the government deficit over the next five years. The result of fiscal contraction will be major job losses during this period, particularly in the public sector. This is likely to have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a generally negative trend starting in mid 2010. Mortgage approvals are also at very weak levels, all of which indicates that the housing market is likely to be weak in 2011.
- **Economic Growth** – Gross Domestic Product (GDP) growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. Growth in quarter 3 at 0.7% was also unexpectedly high whilst the provisional data for quarter 4 indicates a contraction of 0.5%. The outlook is for weak growth in 2011/12.
- **Unemployment** – the trend of falling unemployment has now been replaced since July 2010 with small increases which may be the start of a new trend for some years ahead of rising unemployment.
- **Inflation and Bank Rate** – Consumer Prices Index (CPI) has remained high during 2010. It was at 3.7% in April and then gradually declined to 3.1% in September but has risen again to 3.7% in December. (Retail Prices Index - RPI 4.8%). However, the outlook from there is a rising trend which could even reach as much as 4% in early 2011 before starting to subside again. Although inflation

has remained stubbornly above the Monetary Policy Committee's (MPC) 2% target, the MPC is confident that inflation will fall back under the target over the next two years.

- The Bank of England finished its programme of quantitative easing (QE) with a total of £200bn in November 2009. Our view is that there is unlikely to be any increase in Bank Rate until the end of 2011.
- **AAA rating** – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the budget on 22 June, Sterling strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors viewed UK government gilts as being a safe haven from EU government debt during mid 2010. The consequent increase in demand for gilts helped to add downward pressure on gilt yields and Public Works Loan Board (PWLB) rates.
- **Forward view**
- It is currently difficult to have confidence as to exactly how strong UK economic growth is likely to be during 2011/12, and there are a range of views in the market. There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:
    - the strength / weakness of economic growth in our major trading partners - the US and EU
    - the danger of currency war and resort to protectionism and tariff barriers if China does not adequately address the issue of its huge trade surplus due to its undervalued currency
    - the degree to which government austerity programmes will dampen economic growth and undermine consumer confidence
    - changes in the consumer savings ratio
    - the speed of rebalancing of the UK economy towards exporting and substituting imports
    - the potential, in the US, for more quantitative easing, and the timing of this, and its subsequent reversal in both the US and UK
    - the speed of recovery of banks' profitability and balance sheet imbalances and the consequent implications for the availability of credit to borrowers
    - the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy
    - political risks in the Middle East and Korea

    - There is some residual risk of a double dip recession which would create a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.

    - Our view is that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

4.2 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 2011/12 rising to around 1.0% by March 2012.
- **Long-term rates.** The 25-year PWLB rate will rise through 2011/12 to around 5.7%.
- **Very long-term rates**. The 50-year PWLB rate will rise through 2011/12 to around 5.7%.

4.3 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.

5.3.2 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[5] and no less than the second highest short-term rating from the third of those agencies; and
  - For a UK institution, a support rating[6] 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.

5.3.3 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:

- 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:

[5] Fitch, Moody's and Standard and Poors.
[6] Fitch.

5.4.4

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).

5.7 *Policy on the use of external service providers*
The Council uses Sector and Arlingclose as its external treasury management advisers. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

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 4.2) 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 2011/12, 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 2011/12 treasury operations. The Treasurer 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 2011-12. As a result, we do not anticipate that further long-term borrowing will be needed during 2011/12. 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.