Leicester
City Council

WARDS AFFECTED: ALL WARDS (CORPORATE ISSUE)

FINANCE RESOURCES AND EQUAL OPPORTUNITIES	
SCRUTINY COMMITTEE	**28 FEBRUARY 2002**
CABINET	**11 MARCH 2002**
COUNCIL	**25 MARCH 2002**

TREASURY STRATEGY 2002/2003

Report of the Chief Financial Officer

1. Purpose of Report

1.1 The report recommends a Treasury Strategy for 2002/2003. The Treasury Strategy governs the way the Council manages its debt (of around £270 million) and its investments (of around £60 million).

2. Summary

2.1 Treasury Management is the process by which the Council's borrowing and investments are managed. In March 2000, the former Finance Sub-Committee adopted a policy stating how borrowing and investments should be organised, the responsibilities of officers, and the limits placed on officers' discretion to act without committee approval. This document is currently under review in the light of revised professional guidance that has been issued by CIPFA. It should be noted that as decisions on borrowing individual sums have to be taken very quickly, this is delegated to officers within a framework specified by this policy. At the beginning of each year, the Cabinet approves a strategy for treasury management for that year taking into account the Council's need for capital spending, the economic outlook and prospects for interest rates. This can be revised from time to time if circumstances warrant it. At the end of each year, a report is submitted to the Scrutiny Committee considering the activity undertaken in the year and a progress report is taken to Scrutiny Committee half way through the year.

2.2 The proposed Treasury Strategy for 2002/2003 is detailed in the attached background papers.

2.3 By law, the borrowing limits in the strategy have to be approved by the full Council.

2.4 In summary, the strategy envisages the following:-

i. Both long term and short term interest rates are low but are forecast to increase slightly in 2002.
ii. We will save money by using short term borrowing to meet our needs for the time being. When it appears that long term rates are about to rise we will borrow long term and repay the short term debt.
iii. Out of our cash balances, we will invest around £ 10m - £15m ourselves, lending the money to institutions on our approved lending list. Of the £35m - £40m remainder, some may be lent to supra-national institutions (such as the European Investment Bank) with the rest being invested by professional fund managers.
iv. We will look for beneficial opportunities to repay our existing debt, either with our investments or cheaper new loans.
v. In order to ensure that interest payments are predictable, and within budget, the bulk of the Council's borrowing is, and will continue to be, by means of long-term, fixed rate, loans. The aim, when taking on new loans, will be minimise the Council's revenue costs over the longer term whilst seeking opportunities to achieve short term savings where this is feasible.
vi. The investment strategy aims to ensure the security of the Council's investments by having a broad portfolio of investments, all of which are of high credit worthiness.

3. Recommendations

3.1 The Cabinet is recommended: -

i. To adopt the Strategy detailed in the supporting information;
ii. To recommend that the Council adopt the borrowing limits detailed in paragraph 5.1 of the strategy.
iii. To adopt the proposed lending list attached as appendix B to the Strategy.

3.2 Members of the Finance Resources and Equal Opportunities Scrutiny Committee are recommended:-

i. To consider the proposed Treasury Strategy for 2002/2003 and make any comments to the Cabinet.

3.3 The Council is recommended to adopt the borrowing limits detailed in paragraph 5.1 of the strategy.

4. Financial and Legal Implications

4.1 This report is solely concerned with Financial Issues.

5 Report Author/Officer to contact:

5.1 David Janes, Treasury Manager (Financial Services) - extn. 7490

Leicester
City Council

WARDS AFFECTED: ALL WARDS (CORPORATE ISSUE)

FINANCE RESOURCES AND EQUAL OPPORTUNITIES SCRUTINY COMMITTEE	**28 FEBRUARY 2002**
CABINET	**11 MARCH 2002**
COUNCIL	**21 MARCH 2002**

TREASURY STRATEGY 2002/2003

Report of the Chief Financial Officer

SUPPORTING INFORMATION

1. Summary

1.1 This report describes the proposed Treasury Strategy for the Council for 2002/2003.

REPORT

2. Purpose of Report

2.1 Treasury Management is the process by which the Council's borrowing and investments are managed. This is a vital activity because of the sums involved.

2.2 As at 1 February 2002, the Council's debt was £272 million, which has been raised to pay for capital projects over many years. This level of indebtedness should, however, be seen in the light of the value of the Council's assets which were recorded at the end of 2000/2001 at a value of £900 million.

2.3 The Council also holds a lot of externally invested cash which stood at £57 million as at 1 February 2002. These investments represent working cash balances (the extent to which the Council receives income before it has to pay bills) and the Council's reserves. Some of these monies are managed by professional fund managers, some are managed by my staff. Professional managers achieve better rates of return on the monies they manage, but like to have assurance that money will not be withdrawn very often. Consequently, monies which may be needed during the course of the year are managed in-house.

2.4 It is the responsibility of the cabinet to approve the treasury strategy and it receives a report at the beginning of each year identifying how it is proposed to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. The last such report was approved by the Cabinet in March 2001. Monitoring of the implementation of the treasury strategy is the responsibility of the Finance Resources and Equal Opportunities Scrutiny Committee, and reports are received twice each year.

2.5 This Treasury Management Strategy details the expected activities of the Treasury function in the financial year 2002/2003. The suggested strategy for 2002/2003 is based upon my views of interest rates, which are supported by the use of leading market forecasts. The strategy covers the matters listed below:

i. the Council's current debt and investments;
ii. prospects for interest rates;
iii. borrowing limits which will not be exceeded during the year;
iv. capital borrowing required;
v. investment strategy;
vi. the balance between holding investments and using them to repay debt (or as a substitute for new borrowing);
vii. debt rescheduling opportunities;

2.7 The key factors to consider are

i. How much new borrowing will cost. Members are asked to note that interest rates for borrowing over a long period of time are different from rates for borrowing over a short period.

ii. How much interest the Council can get on its investments

iii. When loans are due to be repaid and how much it is likely to cost to refinance them at that time

iv. The security of investments.

3. **Changes Since 2001/2002**

3.1 Cabinet agreed the previous Treasury Strategy on 19 March 2001. The main changes, which this report addresses, are:

i. Interest rates for short-term loans have fallen over the course of the year but are expected to increase again in 2002/2003.

4. Current Portfolio Position

4.1 The Council's current debt and investment position is shown in the table below. Members are asked to note that the figures shown represent a snapshot at a single moment in time. The table excludes £49M of debt managed by the County Council on behalf of the City Council.

Treasury Position As At 1/02/2002	**Amount**	**Average Interest Rate %***
Fixed Rate Funding Public Works Loan Board Stock	 £181 £80m	 7.1 7.0
Variable Rate Funding/Temporary Loans	£11m	4.3
Total Debt	£272m	7.0
Investments: Managed Directly Managed By Fund Managers	 £20m £37m	 4.6 4.9
Total Investments	£57m	4.8

* Whilst the table shows the actual level of loans and investments the interest rate shown is the average rate for 2001/2002 financial year (estimated)

4.2 The £57M of investments represents net working capital: i.e. the cash flow benefit that derives from income receipts flowing in faster than payments are made, reserves and funds (e.g. the insurance fund). These items of working capital represent future calls on the cash of the authority over the short to medium term, for example creditors represent payments due in the near future whilst reserves and funds may, potentially, be drawn upon in the medium term. The overall level of such balances has been fairly stable in recent years and it is considered appropriate to adopt a medium term strategy for the use of these funds. These funds are currently invested but the other main options are discussed in section 8 below.

5. Treasury Limits For 2002/2003

5.1 By law, the Council has to approve certain limits to borrowing and these following limits are recommended:

the overall borrowing limit, which is the total amount of debt the Council can have at any one time	£360 Million
the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;	£65 Million
the maximum proportion of interest on borrowing which is subject to variable rate interest.	20%

5.2 These limits are higher than current debt levels, in order to ensure that they are sufficient to cover any temporary positions which might arise if we borrow money to repay existing debt but do not make repayment straight away

5.3 This report affirms the previously agreed policy that the Council continues to use set aside capital receipts received in the year to reduce the need to raise new loans and this is reflected in the recommended borrowing limits shown above.

6. Prospects for Interest Rates

6.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. This section discusses the broad economic outlook. Appendix A draws together a number of current City forecasts for short term and longer fixed interest rates.

6.2 The terrorist attacks in September could not have come at a worse time for the US economy which had been heading into recession all through the year as a sharp contraction in high tech sector production affected the whole economy. The attack ensured that the downturn gained further momentum and is almost certain to have tipped the US into recession in quarters 3 and 4 of 2001. As America is the major economy in the world, their downturn has also pulled Europe down as world trade and growth have been hit. Whilst the latest indications are that recession is not as deep as some feared, it is felt unlikely that there will be improvement until the second half of 2002.

6.3 While the word recession is on everyone’s lips in America and Germany, the situation is very different in the UK where economic growth is likely to be only slightly down in 2001, around 2.3% compared to an average of 2.5% in recent years. The economy has been supported by strong consumer demand and borrowing, healthy retail sales, robust housing market and strong growth in government expenditure. The World Trade Centre attack has not greatly impacted consumer confidence. There has, however, been a downturn in employment. Job losses have been particularly heavy in the manufacturing sector but this is a continuation of a general historic trend in the UK economy.

6.4 Shorter-term interest rates –The body that sets interest rates, the Monetary Policy Committee of the Bank of England, or MPC, has taken a very proactive course of action in reducing interest rates aggressively in order to maintain the rate of growth in the economy and to help the manufacturing sector in particular. It has been able to do this as inflation, for which it has been set a target of 2.5%, has been remarkably benign and is expected to remain so. Major falls in the price of crude oil have particularly helped to reduce inflation although this does create vulnerability if oil prices should recover to the $30 per barrel level which was prevalent earlier in 2001. On balance, the risks to inflation are that it will slightly increase. This, together with a possible end to recession in late 2002 means there could be a return to interest rates of 5.0% by the end of 2002. It is also worth noting that if it had not been for a sharp contraction in production in the technology sector in 2001 economic growth would have been near to 2.8% in 2001 instead of 2.3%. Any sharp recovery in growth in this sector could therefore boost economic growth. Given all these factors, it is felt to be very unlikely that base rate will fall below 3.75% and if the world downturn proves less pronounced than currently expected, then it is possible that current rates of 4.0% may prove to be the lowest we will get.

6.5 Longer-term interest rates – The Council's primary source of loans is the Public Works Loans Board (PWLB); a government body that lends money to local authorities at rates below normal levels. PWLB rates fell to remarkably low levels in the second half of 2001 due to long term interest rates in the US, and here, being pulled down by the downturn in America and the terrorist attacks. On the assumption that there will be no further huge terrorist attacks to shock the world, then it is forecast that PWLB rates will increase to around 5.0 – 5.25% by the end of 2002. There is a risk, albeit currently viewed as being small, that the recovery in world and/or UK growth could be stronger and more rapid than expected. If this were to happen, then it is possible that PWLB rates could rise to 6.0%.

6.6 Government finances have been affected by the world economic downturn which has reduced income from taxes. This will lead to an increase in government borrowing which is likely to add to the impetus for long term interest rates to rise from current levels.

7. **Capital Borrowings and Borrowing Strategy**

7.1 Capital borrowing strategy is mainly based on a two year time frame and drawing up a strategy for 2002/2003 requires consideration of the Council's capital financing needs for both 2002/2003 and 2003/2004. The Council needs money to finance new capital investments and these borrowing requirements are expected to be £25 million a year over this two year period. The calculation of the total borrowing needs of the Council needs also to take into account the following factors:

i. The sums the Council is required by law to "set aside" from revenue each year to repay its borrowings - in much the same way as a homeowner repays a mortgage over a number of years.

ii. The need to repay maturing loans.

iii. Future housing capital receipts, some of which must be set aside to repay debt.

7.2 Taking all these factors into account the estimated future borrowing needs of the Council total £29 million in 2002/2003 and £17 million in 2003/2004.

7.3 Based upon the prospects for interest rates outlined above the anticipation is that short-term rates will continue to be cheaper than long fixed rate borrowing for most of 2002/03. However with shorter-term rates expected to rise to match longer term fixed rates, the differential will narrow over time. The interest rate market has been very volatile during 2001 and should be much less so during 2002 provided there are no further major terrorist attacks.

7.4 There are three main options.

i. To use very short term loans. Currently the Council can borrow temporary loans for periods of one month or less at around 3.5% and this is a very attractive rate.

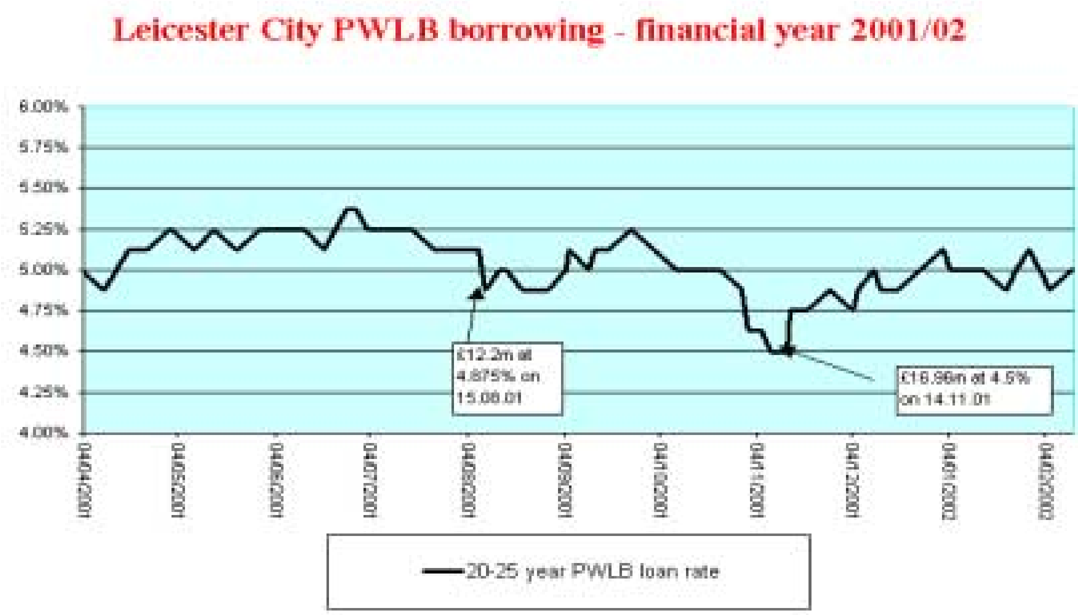
ii. To use short term funding, say for 12 months, at rates of around 4.5%. This would secure attractive interest rates for the period of the loan but interest rate forecasts indicate that when the loan matures it would be refinanced either by short term loans at 5% or long term loans at around 5% to 5.25%.

iii. To use long term loans. Currently 25 year loans are available from the PWLB at 4.875% and when judged on a historical basis long term interest rates below 5% are considered good value.

7.5 It is considered that in current circumstances option i should be adopted in the short-term until clearer evidence is available of imminent increases in interest rates, at which stage long term loans will be drawn. If it appears that long term rates will rise, we will borrow 2003/04's requirement in advance.

7.6 The proposal that the Council applies option i until clear evidence of imminent increases in interest rates runs the risk that we "miss the boat" and that we are not able to "lock into" interest rates at the lowest level. However the markets will be watched closely. Furthermore because of our high level of investments, the Council would benefit if we were taken by surprise by an economic event that caused short term interest rates to rise.

7.7 Borrowing is likely to be from the PWLB as this is generally the cheapest source of fixed-rate, long-term loans, available to local authorities but other sources of borrowing will be considered. We shall aim to borrow when interest rates are lowest; something that we achieved in 2001/2002 when we took our borrowing requirements in two tranches and this is demonstrated in the graph below.



7.8 In 2002/2003 we will review the benchmarks that we use to monitor the efficiency of our debt management. We plan to achieve this by participating in the CIPFA investment benchmarking club and by working with our treasury management consultants.

7.9 The bulk of the Council's borrowing will comprise long-term, fixed-rate, loans that were taken in earlier financial years. Such loans enable the Council to forecast its future interest payments, and this is important to its medium term financial plans.

8. **Investments Strategy**

8.1 As at 1 February the Council had £57M of investments. The overall level of such balances has been fairly stable in recent years and it is considered appropriate to adopt a medium term strategy for the use of these funds. The main options are;

i. To invest with fund managers. Fund managers are expected to earn a higher return than the Council would expect to get by placing deposits itself. In the short term the returns earned by fund managers can be variable and as a rule of thumb funds should not be placed with fund managers unless it is envisaged that the fund managers will hold them for at least 18-24 months. Over shorter periods the return may be less than would be obtained by placing the funds on short-term deposit.

ii. To place the funds on short-term deposit. The level of interest earned would depend on the prevailing level of interest rates.

iii. To purchase fixed interest bonds issued by supranational organisations with the intention of holding them to maturity. The level of interest earned would be fixed and this can be an attractive feature in that it assists financial planning for future years.

iv. To use the funds to avoid new borrowing or to prematurely repay existing debt.

8.2 It is proposed that the existing policy is continued whereby cash available for investment be split between that managed in house and that placed with fund managers. Of the £57M of investments currently held approximately £10-£15M is considered likely to be required at any given moment and should be held on short-term deposit (option ii). A further £5M is expected to be spent by the end of the 2001/2002 financial year. The £37M remainder is currently placed with fund managers but might be applied to any of the other options identified above.

8.3 Investments managed by the Council's own staff will be managed by reference to the cash flow requirements of the authority and such investments will be made for short periods only. We maintain a "lending list" of bodies to whom we are authorised to lend money.

8.4 The Council's fund managers report their strategy to the Chief Financial Officer at twice yearly review meetings, with interim changes being notified in writing.

8.5 Supranational organisations are bodies such as the World Bank that are sponsored and financed by the governments of the major economically developed countries and the Council's investment list includes bonds issued by these institutions. Our lending list requires a "triple A" credit rating (the highest that is available) and permits investments up to a period of 5 years. Such investments pay interest at a rate 0.3% to 0.7% higher than that paid on similar UK government bonds as well as providing a way in which to "lock into" attractive interest rates. If such investments are made the level of funds invested with the Council's fund manager is likely to be reduced but the Council would aim to hold sufficient funds on deposit as a buffer against unexpected demands. An investment in supranational organisations would be treated as an opportunity to "lock into" high interest rates when it was perceived that interest rates had peaked.

8.6 Members will observe that the Council has both loans and investments and as noted above these funds might be used to avoid new borrowing or to prematurely repay existing debt. However, the interest rate outlook suggests that if balances were used instead of new loans this would preclude taking new loans in 2002/2003 at low rates only to borrow in later years when interest rates were higher. This course of action is not, therefore, recommended.

8.7 Notwithstanding the previous paragraph it is possible to envisage situations where as part of a debt restructuring arrangement investments are used to repay debt. This would, however, be a temporary arrangement rather than a permanent change in policy.

8.8 In 2002/2003 we will review the benchmarks that we use to monitor the performance of our investments (as we propose to do for debt management).

9. <u>Debt Rescheduling & Premature Repayment of Debt</u>

9.1 Debt rescheduling is the premature repayment of loans with the repayment being financed by taking out new, cheaper, loans. Members will note from paragraph 4.1 that our debt is held at higher rates of interest than are currently available. Unfortunately, we cannot simply repay these as a penalty has to be paid. Sometimes it is worth paying such a penalty, sometimes it is not. It is proposed that we undertake debt rescheduling if financially advantageous. The reasons for any rescheduling to take place will include:

i. the generation of savings at minimum risk; or

ii. in order to enhance the balance of the long-term portfolio (i.e. the dates of repayment and balance between fixed and variable interest rates).

When making decisions we will be guided by our expectation of future movements in interest rates but the situation will be continually monitored in order to take advantage of any perceived "tremors" in the market. To maximise the savings from debt rescheduling replacement loans should be taken at low interest rates and when interest rates are expected to fall we would delay taking the replacement loan until this happened. In the interim, temporary finance would be found by raising a temporary loan or by using cash balances. (Thus, it is proposed that our borrowing limits contain sufficient capacity to achieve this).

9.2 The premature repayment of existing debt utilising cash investments may also be considered where financially attractive.

9.3 It has been mooted by the Government that the range of investments that a local authority is legally permitted to hold may be expanded. Should this happen a further report will be brought to Cabinet recommending appropriate changes to the Treasury Strategy and to the list of approved investments.

9.4 All rescheduling and premature repayment of debt will be reported to the Scrutiny committee, at the meeting following the rescheduling.

9.5 When considering the options for rescheduling, all the Council's debts will be periodically examined in the light of current market conditions. Of particular interest, however, will be the Council's £80 million stock issue as this is the single largest loan that we have. This was raised in 1994 at a rate of 7%. This was a success as in the absence of the stock issue loans would have been borrowed from the PWLB at rates of 8% or more. However in the current economic climate of low inflation and low interest rates it would be beneficial if this loan could be repaid in whole or part.

10. **Sensitivity of This Strategy**

10.1 The strategy is based on the current economic and political outlook but might need to be reconsidered if early UK participation in Economic Monetary Union (EMU) became a real possibility. At this stage it is difficult to state what an appropriate response to such a development would be. Short-term interest rates are considerably lower in the Eurozone than in the UK and lower than long-term rates in both the UK and the Eurozone. Accordingly raising short-term loans might be financially attractive in such circumstances. At this stage it is probably sufficient to note that such a development would almost certainly require the preparation of a revised Treasury Strategy.

10.2 Information from some sources suggests that the government may put pressure on local authorities to transfer their housing stock to social housing landlords and last year some commentators suggest that within 10 years no UK local authority will hold housing stock. On current information it remains speculative whether this will happen. In the event that it did happen the Council would need to repay its housing debt and this would incur premia. The strategy does not assume this will happen, but decisions will take into account the impact if this did happen. It may, for instance, be beneficial to restructure debt in circumstances where this has no impact on current or forecast future borrowing costs if it increases our flexibility at a future date, and any such opportunities will be taken.

10.3 The government is consulting on possible changes to the framework governing capital finance, borrowing and housing subsidy. Any such changes appear unlikely to affect 2002/03 or 2003/04. I shall, however, monitor developments.

10.4 Consideration should be given to the possibility that inflation is higher or lower than expected. Generally it might be expected that higher levels of inflation will lead to higher interest rates and lower than expected inflation levels to lower interest rates. Any large variations in the rate of inflation would, however, require that the Council revise its Treasury Strategy.

10.5 The interest rate assumptions upon which this strategy is based are stated in section 6 above. Given the limitations inherent in any forecast it is appropriate to consider the action to be taken if these forecasts do not come to pass. Small changes in long term or short term rates will not require a major rethink of this strategy but will affect the timing of long term borrowing, possibly deferring it until 2003/04 and may affect opportunities for debt rescheduling. If, however, such changes were the result of a significant economic or political development it would probably be appropriate to revise the Council's Treasury Strategy.

10.6 Where, exceptionally, immediate action which does not comply with this strategy will benefit the Council such action will be taken, and will be reported to the next meeting of the Finance Resources and Equal Opportunities Scrutiny Committee.

11. **External Fund Managers**

11.1 The Council uses a fund manager to manage cash balances when it is expected that the balances will not be required within the next 12-18 months. The rationale for the use of fund managers is that on average they should earn 0.5% interest a year more than the Council would earn on short-term deposits. Over periods shorter than 18-24 months fund managers may earn less than would be earned on short-term deposits.

11.2 The other risk with this strategy is that if the Council needs to recall funds from the fund manager at short notice that this may require investments to be sold at a loss, i.e. if market conditions were adverse. This risk is mitigated, however, by the following factors:

i. Recent years have shown a fairly predictable cash position and this strategy suggests that the Council retain £10 - £15 million of investments managed in house which are mostly invested within a one-two month time frame but could, if necessary, be liquidated at short notice and at low cost. This provides a buffer to meet any sudden demands for cash.

ii. The Council's financial standing is such that it can borrow short-term borrowing at low cost.

11.3 In 2002/2003 both short term and long term interest rates are forecast to increase and this presents a very difficult environment for a fund manager to outperform substantially the rate of interest that would be earned simply by placing the funds on deposit.

11.4 The 2001/02 best value review of financial services has recommended that this service should be subject to a value for money review in 2002. The current indications, however, are that this is unlikely to lead to a significantly higher return on investments because the evidence is that they are one of the better fund managers and on occasions they were the best.

12. Lending Criteria

12.1 Investments will only be made with the institutions identified in the Council's approved investment list. The last such list was approved by your Committee on 19 March 2001. A revised list is submitted as appendix B for approval. The purpose of issuing a revised lending list is to reflect current data on the credit ratings of banks and other institutions. The Committee is asked to note that all credit rating downgrades are acted upon immediately under delegated powers.

13. Treasury Management Consultants

13.1 The Council employs Sector Treasury Services as treasury management consultants. The service provides advice on our borrowing and investment policies and strategies. The annual fee for this service is £30,000 and the current contract expires in 2002. As a result of the 2001/02 best value review of financial services it was agreed that this service should be subject to a value for money review in 2002.

14. Operational Leasing

14.1 The Council is likely to enter into operational leases in 2002/2003 to acquire equipment with a capital value of the order of £1.5M, principally vehicles. Lease rentals may be fixed at the outset with regard to interest rates or the agreement may provide for the rental to be adjusted to reflect changes in interest rates. In previous years our practice has been to fix lease rentals at the outset but in 2001/2002 we evaluated, on a trial basis, the possibility of linking lease rentals to variable interest rates where this was considered cost effective. This approach has proved viable and in 2002/2003 savings are expected to be approximately £11,000. The success of this approach will be evaluated further in the review of treasury management activities for 2001/2002 that will be submitted to scrutiny committee in May 2002.

15. Financial Implications

15.1 This report is solely concerned with Financial Issues

16. Legal Implications

16.1 None.

17. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

18. Author

18.1 The author of this report is David Janes of the Town Clerk's & Corporate Resources Department on extension 7490

M Noble
Chief Financial Officer.

APPENDIX A

Outlook for Interest Rates

The data below shows a variety of forecasts published by a number of institutions. The first represents the views of an individual City bank; the second two represent summarised figures drawn from the population of all major City banks and academic institutions. The current data shows the rates at the time of issue, not necessarily current rates. The forecast within the strategy has been drawn from these diverse sources and officers own views.

Individual Banks Forecasts

UBS Warburg Economic Forecast - Interest Rates December 2001

(%)	Current	Q4 2001	Q1 2002	Q2 2002	Q3 2002	Q4 2002
Base Rate	4.00%	4.00%	3.75%	4.00%	4.50%	5.00%
10 Year Gilt	4.62%	4.70%	5.05%	5.10%	5.20%	5.30%
30 Year Gilt	4.39%	4.50%	4.80%	4.85%	4.95%	5.05%

Summary Bank Forecasts

HM Treasury - summary of 35 independent forecasters views of base rate – as at November 2001 (2003 - 2005 are as at October 2001)

(%)	2001	2002	2003	2004	2005
	Year end	Year end	Average	Average	Average
Average	4.36%	4.90%	5.35%	5.39%	5.15%
Highest	5.25%	6.25%	6.00%	6.50%	6.00%
Lowest	4.00%	3.50%	4.10%	4.00%	4.20%

Consensus Forecasts - summary view of 25 city houses on the likely change in short term and 10 year fixed interest rates (December 2001)

(%)	Dec 2001	Mar 02	Dec 02
3 Month Interbank - Average	3.96%	4.00%	4.08%
High	3.96%	4.70%	5.80%
Low	3.96%	3.20%	3.50%
10 year Gilt yield - Average	4.85%	4.70%	5.00%
High	4.85%	5.20%	5.40%
Low	4.85%	4.40%	4.50%

APPENDIX B

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 1 of 4

Banking institutions	Home State	maximum amount	maximum period
Abbey National plc	UK	£ 10 m	364 days
ABN AMRO Bank NV	Netherlands	£ 10 m	364 days
Bank of America NA	United States	£ 10 m	364 days
Bank of New York	United States	£ 10 m	364 days
Bank of Scotland plc	UK	£ 10 m	364 days
Dexia Banque Internationale a Luxembourg SA	Luxembourg	£ 10 m	364 days
Barclays Bank plc	UK	£ 10 m	364 days
J P Morgan Chase Bank	United States	£ 10 m	364 days
Citibank NA	United States	£ 10 m	364 days
Credit Agricole (Caisse Nationale de)	France	£ 10 m	364 days
Deutsche Bank AG	Germany	£ 10 m	364 days
Dexia Bank	Belgium	£ 10 m	364 days
Dexia Credit Local	France	£ 10 m	364 days
Halifax plc	UK	£ 10 m	364 days
HSBC Bank plc	UK	£ 10 m	364 days
Landwirtschaftliche Rentenbank	Germany	£ 10 m	364 days
LLoyds TSB Bank plc	UK	£ 10 m	364 days
National Australia Bank Ltd	Australia	£ 10 m	364 days
National Westminster Bank plc	UK	£ 10 m	364 days
NV Bank Nederlandse Gemeenten	Netherlands	£ 10 m	364 days
Rabobank International(Cooperatieve Centrale Raiffeisen-Boerenleenbank BA)	Netherlands	£ 10 m	364 days
Royal Bank of Canada	Canada	£ 10 m	364 days
Royal Bank of Scotland plc	UK	£ 10 m	364 days
State Street Bank and Trust Company	US	£ 10 m	364 days
UBS AG	Switzerland	£ 10 m	364 days

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 2 of 4

Bank	Home State	maximum amount	maximum period
Alliance & Leicester plc	UK	£ 10 m	6 months
Allied Irish Banks plc	Rep. Ireland	£ 10 m	6 months
Artesia Banking Corporation	Belgium	£ 10 m	6 months
Australia and New Zealand Banking Group Ltd	Australia	£ 10 m	6 months
Banco Bilbao Vizcaya Argentaria	Spain	£ 10 m	6 months
Bank Brussels Lambert	Belgium	£ 10 m	6 months
Bank of Ireland	Rep. Ireland	£ 10 m	6 months
Bank of Montreal	Canada	£ 10 m	6 months
Bank of Nova Scotia	Canada	£ 10 m	6 months
Banque Generale du Luxembourg SA	Luxembourg	£ 10 m	6 months
BNP Paribas	France	£ 10 m	6 months
Canadian Imperial Bank of Commerce	Canada	£ 10 m	6 months
Commonwealth Bank of Australia	Australia	£ 10 m	6 months
Credit Commercial de France	France	£ 10 m	6 months
Credit Suisse First Boston	Switzerland	£ 10 m	6 months
Danske Bank AS	Denmark	£ 10 m	6 months
Fortis Bank NV	Belgium	£ 10 m	6 months
Landesbank Baden-Wurttemberg	Germany	£ 10 m	6 months
Nordea Bank Danmark	Denmark	£ 10 m	6 months
Nordea Bank Finland plc	Finland	£ 10 m	6 months
Nordea Bank Sweden	Sweden	£ 10 m	6 months
Societe Generale	France	£ 10 m	6 months
Svenska Handelsbanken AB (publ)	Sweden	£ 10 m	6 months
Toronto Dominion Bank	Canada	£ 10 m	6 months
UniCredito Italiano SpA	Italy	£ 10 m	6 months
Wachovia Bank NA	United States	£ 10 m	6 months
Westpac Banking Corporation	Australia	£ 10 m	6 months

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 3 of 4

Banking institutions	Home State	maximum amount	maximum period
Banca Intesa	Italy	£ 5 m	3 months
Banca Monte dei Paschi di Siena	Italy	£ 5 m	3 months
Banco Commercial Portugues SA	Portugal	£ 5 m	3 months
Banco Santander Central Hispano	Spain	£ 5 m	3 months
Banque et Caisse d'Epargne de l'Etat	Luxembourg	£ 5 m	3 months
Bayerische Landesbank Girozentrale	Germany	£ 5 m	3 months
Bradford & Bingley	UK	£ 5 m	3 months
Cariverona Banca SpA	Italy	£ 5 m	3 months
Cheltenham & Gloucester plc	UK	£ 5 m	3 months
Citibank International plc	UK	£ 5 m	3 months
Clydesdale Bank plc	UK	£ 5 m	3 months
Confederaciaon Espanola de Cajas de Ahorros	Spain	£ 5 m	3 months
Credit Agricole Indosuez	France	£ 5 m	3 months
Credit Suisse First Boston International	UK	£ 5 m	3 months
Dresdner Bank AG	Germany	£ 5 m	3 months
Hamburgische Landesbank Girozentrale	Germany	£ 5 m	3 months
ING Bank NV	Netherlands	£ 5 m	3 months
Jyske Bank	Denmark	£ 5 m	3 months
KBC Bank NV	Belgium	£ 5 m	3 months
Landesbank Hessen Thuringen Girozentrale (Helaba)	Germany	£ 5 m	3 months
Landesbank Rheinland-Pfalz Girozentrale	Germany	£ 5 m	3 months
Landesbank Schleswig-Holstein Girozentrale	Germany	£ 5 m	3 months
Natexis Banque Populaires	France	£ 5 m	3 months
National Bank of Canada	Canada	£ 5 m	3 months
Norddeutsche Landesbank Girozentrale	Germany	£ 5 m	3 months
Nordea Bank Norge ASA	Norway	£ 5 m	3 months
San Paolo IMI SpA	Italy	£ 5 m	3 months
SwedBank (foreningsSparbanken AB (publ))	Sweden	£ 5 m	3 months
Ulster Bank Ltd	UK	£ 5 m	3 months
Woolwich plc	UK	£ 5 m	3 months

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 4 of 4

Banking institutions	Home State	maximum amount	maximum period
Banco Espirito Santo a Comercial de Lisboa (BES)	Portugal	£ 3 m	1 month
BHF Bank AG	Germany	£ 3 m	1 month
Bristol & West plc	UK	£ 3 m	1 month
CIBC World Markets plc	UK	£ 3 m	1 month
Commerzbank AG	Germany	£ 3 m	1 month
Den norske Bank ASA	Norway	£ 3 m	1 month
Dresdner Kleinwort Wasserstein Ltd	UK	£ 3 m	1 month
Hypotheken in Essen AG	Germany	£ 3 m	1 month
HypoVereinsbank AG	Germany	£ 3 m	1 month
Irish Intercontinental Bank Ltd	Rep. Ireland	£ 3 m	1 month
NIB Capital Bank NV	Netherlands	£ 3 m	1 month
Raiffeisen Zentralbank Osterreich AG	Austria	£ 3 m	1 month
Republic National Bank of New York	United States	£ 3 m	1 month
Rheinhyp Rheinische Hypothekenbank AG	Germany	£ 3 m	1 month
Skandinaviska Enskilda Banken AB (publ)	Sweden	£ 3 m	1 month

APPROVED INSTITUTIONS FOR DEPOSITS

Building Societies & Local Authorities – Page 1 of 1

Building Societies	maximum amount	maximum period
Nationwide	£ 10 m	6 months
Britannia	£ 5 m	1 month
Coventry	£ 5 m	1 month
Portman	£ 5 m	1 month
Principality	£ 5 m	1 month
Skipton	£ 5 m	1 month
Yorkshire	£ 5 m	1 month
Chelsea	£ 3 m	7 days
Derbyshire	£ 3 m	7 days
Leeds & Holbeck	£ 3 m	7 days
UK Local Authorities – All Are Permitted	£ 10 m	364 days

APPROVED INSTITUTIONS FOR INVESTMENTS

BONDS ISSUES BY SUPRANATIONAL BODIES – Page 1 of 1

Table Of Authorised Issuers

Supranational Bodies	maximum amount	maximum period
European Investment Bank	£ 5 m	5 Years
European Bank for Reconstruction & Development	£ 5 m	5 Years
Guranteed Export Finance Corporation	£ 5 m	5 Years
Guranteed Export Finance Corporation plc	£ 5 m	5 Years
Intra-American Development Bank	£ 5 m	5 Years
International Bank for Reconstruction & Development	£ 5 m	5 Years
International Finance Corporation	£ 5 m	5 Years

Table Of Bonds That Currenly Meet The Council's Investment Criteria

The table below shows, for information, the bonds issued by Supranational Bodies that meet the Council's investment criteria. These are that the name of the bond issuer has been approved by the Council (see table above), that the bond maturity does not exceed 5 years, that the bond carries a triple A credit rating with one of the major credit rating organisations and that the bond is listed on the London Stock Exchange.

Issuer	Coupon Interest Rate	Maturity Date
European Bank for Reconstruction & Development	5.750	07-Jun-02
European Investment Bank	11.000	23-Sep-02
Intra-American Development Bank	7.250	31-Dec-02
Intra-American Development Bank	12.500	08-Jan-03
International Bank for Reconstruction & Development	11.500	09-Nov-03
International Finance Corporation	5.75	08-June-04
European Investment Bank	10.375	22-Nov-04
European Investment Bank	5.00	07-Dec-06
International Bank for Reconstruction & Development *	9.25	20-Jul-07

* In order to comply with the 5 year limit on the maturity of such bonds this investment will not become authorised for use until 21 July 2002