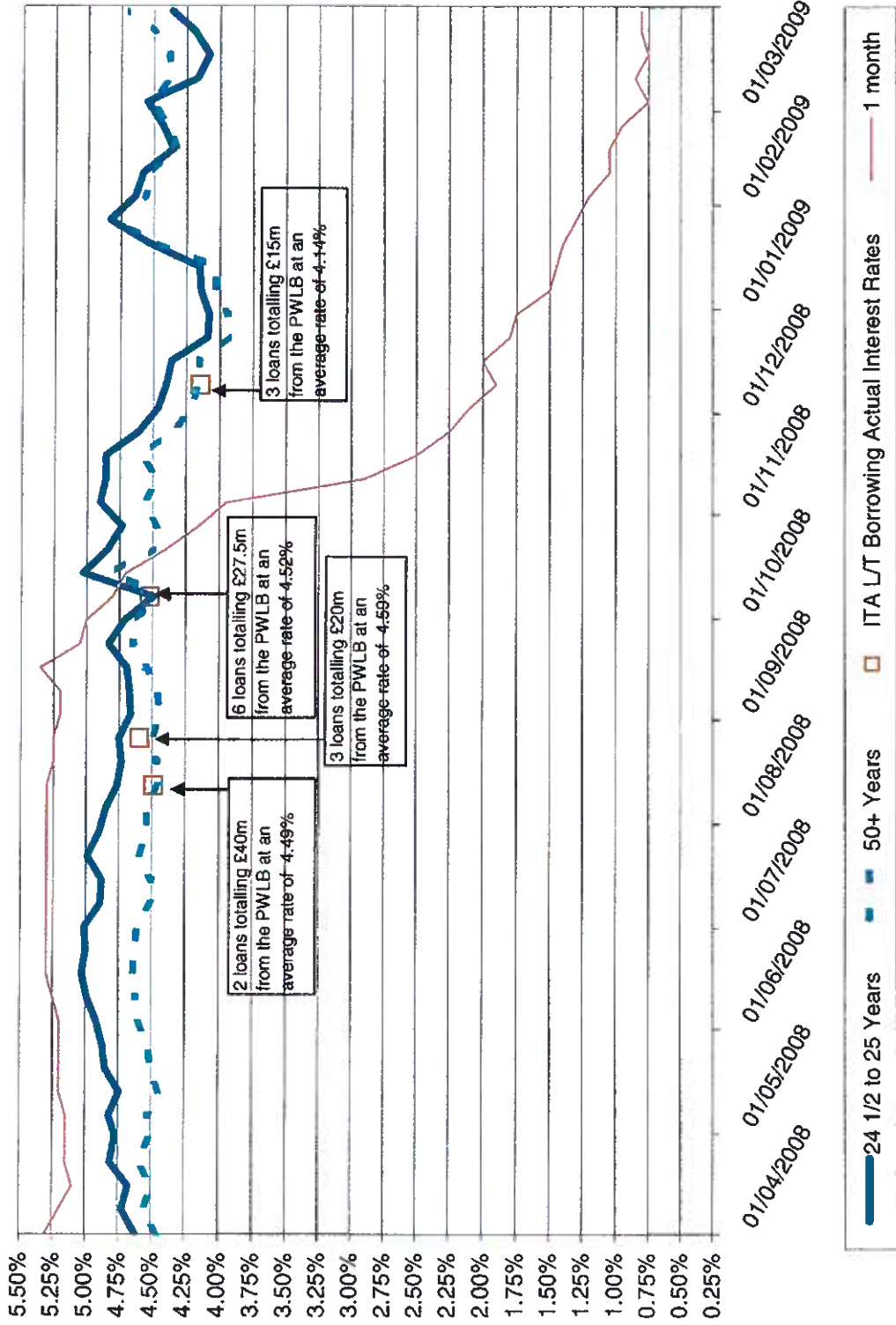


PWLB Interest Rates 2008/09



TREASURY MANAGEMENT PRUDENTIAL INDICATORS : 2008-09

	Revised £000	Minimum In Year £000	Maximum In Year £000
Operational Boundary for External Debt - Borrowing	£361,209	£199,993	£302,493
Other Long Term Liabilities	£0	£0	£0
Authorised Limit for External Debt - Borrowing	£368,209	£199,993	£302,493
Other Long Term Liabilities	£0	£0	£0
	Actual as at 31 March 2009		
Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services	Yes	Yes	
Upper Limit for Fixed Interest Rate Exposure			
Net Borrowing at Fixed Rate as a percentage of Total Net Borrowing	196%	127%	
Upper Limit for Variable Interest Rate exposure			
Net Borrowing at Variable Rate as a percentage of Total Net Borrowing	25%	-27%	
Upper Limit for Principal Sums Invested for over 364 days	£0	£0	

Maturity structure of Fixed Rate Borrowing	Lower Limit	Upper Limit	Actual as at 31 March 2009
	2008-09 Revised	2008-09 Revised	
under 12 months	0%	30%	0%
12 months and within 24 months	0%	30%	0%
24 months and within 5 years	20%	50%	32%
5 years and within 10 years	0%	30%	2%
10 years and above	50%	80%	66%

Authorised Limit - This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Authority. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty – the other party involved in a borrowing or investment transaction.

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

GBR – Government Borrowing Rate. This is the rate the Public Works Loan Board charges for borrowing variable loans.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

LIBID – (London Interbank Bid Rate). The interest rate at which banks bid to take short-term deposits from other banks in the London interbank market.

LIBOR – (London Interbank Offer Rate). The interest rate at which banks offer to take short-term borrowing from other banks in the London interbank market.

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

LOBO – Lender Option Borrower Option. Long-term borrowing deals structured in a such a way that a low rate of interest is usually offered for a short, initial period (anything from 1 to 10 years), followed by a “step up” to a higher rate of interest (the “back end” interest rate), which is to be charged for the remainder of the loan period. The overall length of LOBOs is usually 50 or 60 years, but can be for shorter or longer periods. After the “step up” date, and at set intervals thereafter, the lender (the bank) has the option of increasing the “back end” interest rate. Whenever this option is exercised, if the proposed new interest rate is unacceptable, the borrower (the PTA) can redeem the loan without penalty. More recently, the Finance Officer has looked at Vanilla LOBO loans, which have an interest rate which remains constant throughout the life of the loan, although still potentially subject to change at the lender’s option.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the PTA vulnerable to prevailing interest rates in that year.

Minimum Revenue Provision – the Authority must set aside a Minimum Revenue Provision (MRP) of 4% of its External debt, plus 4% of any new borrowings, as a debt redemption provision.

Monetary Policy Committee (MPC) – the independent body which determines Bank Rate.

Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Authority to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Authority’s capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves to reflect interest rates of the day, or can be tied to specific dates during the loan period. Rates may change on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt that matures in the year and needs replacing, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short term loans compared to long term loans. An inverted Yield Curve is the opposite of this.