Appendix H

Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16

1 Summary

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require fire authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

1.2 As per the requirements of the Prudential Code, the Fire Authority adopted the CIPFA Treasury Management Code at its meeting on 10 February 2010.

1.3 The purpose of this TMSS is, therefore, to approve:

- (where applicable) revisions to Treasury Management Strategy and Prudential Indicators for 2012/13
- Treasury Management Strategy for 2013/14
- Annual Investment Strategy for 2013/14
- Prudential Indicators for 2013/14, 2014/15 and 2015/16 shown in Annex B
- Minimum Revenue Provision (MRP) Statement shown in Section 10 and Annex F.

1.4 The Fire Authority has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Fire Authority's treasury management strategy.

1.5 **This strategy recommends the following approvals:**

- **Treasury Management Strategy and Annual Investment Strategy for 2013/14, although this would also be adopted for the rest of 2012/13**
- **Prudential Indicators for 2013/14, 2014/15 and 2015/16 – Annex B**
- **Minimum Revenue Provision (MRP) Statement – Section 10**
- **That the Authority reaffirms its commitment to sharing any capital losses on pooled cash balances on a pro rata basis, whilst any losses on deposits specifically made on behalf of the HFRA should be borne in full by the Authority.**

2 Capital Financing Requirement

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

2.2 As at 30 November 2012 the Fire Authority's currently has £8.6m of debt and £23.8m of investments. This is set out in further detail at Appendix A.

2.3 The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16, although the Authority's CFR is estimated to fall in future years with the ongoing payment of Minimum Revenue Provision (MRP). The Authority is likely to only borrow in advance of need if it feels the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

2.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Financing Requirement	14,826	13,989	13,256	12,665
Less: External Borrowing (PWLB)	-8,375	-8,375	-8,350	-8,350
Less: Other Long Term Liabilities (finance leases)	-252	-66	0	0
Cumulative Maximum External (gross) Borrowing Requirement	6,199	5,548	4,906	4,315
Usable Reserves	-23,430	-20,972	-15,579	-13,163
Cumulative Net Borrowing Requirement/(-) Investment	-17,231	-15,414	-10,673	-8,848

3 Interest Rate Forecast

3.1 The economic and interest rate forecast provided by the Fire Authority's treasury management advisor is attached at Appendix C. The Authority will reappraise its strategies from time to time in response to evolving economic, political and financial events.

3.2 The interest rate forecast continues its theme of the last few years, that is, that interest rates will remain low for even longer. Indeed, the forecast is for official UK interest rates to remain at 0.5% until 2016 given the moribund outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement.

4 Borrowing Strategy

4.1 The Fire Authority's capital programme (summarised in Annex B Section 3) does not include any plans for new borrowing to finance capital expenditure. The Capital Financing Requirement, shown in Table 1 above, relates only to previous years' capital expenditure and finance leases.

4.2 As indicated in Table 1, as a result of the Capital Financing Requirement that has built up, the Authority has a gross borrowing requirement of £5.5m in 2013/14 but has sufficient balances and reserves to avoid the need for further external borrowing. This enables the Authority to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances.

5 Sources of Borrowing and Portfolio Implications

5.1 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Fire Authority will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities (including Hampshire County Council)
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria)
- Leasing
- Structured finance
- Capital markets (stock issues, commercial paper and bills)
- Commercial banks.

5.2 The Authority's PWLB borrowing portfolio of £8.35m has developed over a number of years since 1998, and the outstanding term remaining of 17 years relates to the estimated lives of the capital assets it has funded. The Authority has no exposure to shorter dated and variable rate borrowing. Its debt has a weighted average fixed interest rate of 4.7%, which although higher than the rates on offer for equivalent loans protects the Authority from the risk exposure to rising interest rates over the long term.

6 Debt Rescheduling

6.1 The Authority's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

6.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Align long-term cash flow projections and debt levels
- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Changing the maturity profile of the debt portfolio.

6.3 Opportunities for borrowing, rescheduling and repayment of loans will be kept under review and any activity will be reported to the Authority in the Annual Treasury Management Report and the treasury management monitoring report presented to the Authority.

7 Annual Investment Strategy

7.1 In accordance with investment guidance issued by the CLG and best practice the Fire Authority's primary objective in relation to the investment of public funds remains the security of capital. Having adequate liquidity or accessibility for the Authority's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

7.2 The Authority and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the Authority.

7.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Authority and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

7.4 The types of investments that will be used by the Authority and whether they are specified or non-specified are shown in Table 2 below, further details can be found in Annex D & E:

Table 2: Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	×
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	×
Commercial Paper	✓	×
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	×
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	×

7.5 The minimum credit rating for non-UK sovereigns is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent).

7.6 The other credit characteristics, in addition to credit ratings, that the Authority monitors are listed in the Prudential Indicator on Credit Risk in Annex B. Any institution will be suspended or removed should any of the factors identified above give rise to concern. The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in Annex D.

7.7 The Fire Authority banks with NatWest. At the current time it meets the Authority's minimum credit criteria. Even if the credit rating falls below the Authority's minimum criteria NatWest will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

8 Investment Strategy

8.1 With short term interest rates low for some time, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding a borrower that offers an acceptable level of security for an investment.

8.2 In order to diversify a portfolio invested in cash, investments will be placed with approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

8.3 The Investment Strategy will provide the flexibility to invest cash for a maximum period of up to two years in order to access higher investment returns in the current low interest rate environment, although lending to UK local authorities can be for up to three years. Within this Strategy the duration of actual investments will be determined by the perceived credit risk, based on the creditworthiness criteria outlined in Annex B Section 11. For example, currently new investment deposits with banks and building societies are restricted to between 100 days and 12 months based on the assessment of the individual counterparties' credit risk, with lending to some counterparties prohibited completely at the current time.

8.4 Any residual balances will be invested with the County Council, earning interest based on the Bank of England's base rate. The Fire Authority invests with the County Council on an instant access basis, which is its main source of liquidity. When the position is overdrawn, the interest rate payable is similarly based on the Bank of England's base rate. The Investment Strategy will be to minimise the amount of funds the Fire Authority has invested on an instant access basis for day-to-day cashflow purposes, either with the County Council or any other counterparty. This is to enable access to higher yields where possible, in line with the limits in place to manage capital security already outlined in this strategy.

9 Policy on the use of Financial Derivatives

9.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

9.2 The Fire Authority currently has no plans to make use of financial derivatives. Should this change derivatives will only be used after seeking expert advice, a legal opinion and ensuring officers have the appropriate training for their use.

9.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

10 2013/14 MRP Statement

10.1 The Authority is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing (MRP). This year's policy can be found in Appendix F of this report.

11 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

11.1 Treasury activity is monitored quarterly and reported internally to the Treasurer. The Prudential Indicators will be monitored through the year by the Treasurer and reported as set out below. The Treasurer will report to the Authority on treasury management activity / performance and Prudential Indicators as follows:

- A mid-year and year end review of treasury activity against the strategy approved for the year.
- The Authority will produce an outturn report on its treasury activity no later than 30 September after the financial year end.
- The Finance & General Purposes Committee will be responsible for the scrutiny of treasury management activity and practices.

12 Other Items

12.1 Training - CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. Fire Authority members have been offered training through their host authorities. The training needs of the Authority's treasury management staff are subject to regular review.

12.2 Treasury Management Advisors - The Treasurer uses Arlingclose Ltd as external treasury advisers for information, advice and assistance relating to borrowing and investment**.**

Existing Investment & Debt Portfolio Position as at 31 December 2012

	Actual Portfolio £m	Average Rate %
External Borrowing:		
PWLB – Fixed Rate	-8.35	4.70
SALIX (energy efficiency) loan	-0.03	0.00
Other Long Term Liabilities:		
Finance Leases	-0.25	-
Total Gross External Debt	-8.63	-
Investments:		
Managed in-house		
Lending to UK banks and building societies	21.00	0.91
Lending to HCC	2.67	0.50
Lending to other Local Authorities	2.00	1.19
Total Investments	25.67	0.89
Net Investments	17.04	-

Prudential Indicators 2013/14 – 2015/16

1 Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2 Gross Debt and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Fire Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Treasurer reports that the Authority has had no difficulty meeting this requirement in the financial year to date, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the draft budget.

3 Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Expenditure	4,156	5,359	8,519	4,079

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital receipts	0	0	0	0
Government Grants	2,131	1,450	1,450	1,000
Capital payments reserve	358	2,211	6,369	2,349
Revenue contributions	1,664	1,698	700	730
Capital contributions	3	0	0	0
Total Financing	4,156	5,359	8,519	4,079
Supported borrowing	0	0	0	0
Unsupported borrowing	0	0	0	0
Total Funding	0	0	0	0
Total Financing and Funding	4,156	5,359	8,519	4,079

4 Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

	2012/13 Approved %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %
Ratio of Financing Costs to Net Revenue Stream	2.0	1.9	1.8	1.5

5 Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the

CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Financing Requirement	14,826	14,826	13,989	13,256	12,665

6 Incremental Impact of Capital Investment Decisions

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2012/13 Approved £	2013/14 Estimate £	2014/15 Estimate £	2015/16 Estimate £
Increase in Band D Council Tax	0.84	1.14	1.10	1.14

7 Authorised Limit and Operational Boundary for External Debt:

7.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

7.2 The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

7.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Authorised Limit for Borrowing	20.7	20.7	19.5	18.8	18.1
Authorised Limit for Other Long-term Liabilities	0.3	0.3	0.1	0	0
Authorised Limit for External Debt	21.0	21.0	19.6	18.8	18.1
Operational Boundary for Borrowing	18.1	18.1	17.1	16.4	15.7
Operational Boundary for Other Long-term Liabilities	0.3	0.3	0.1	0	0
Operational Boundary for External Debt	18.4	18.4	17.2	16.4	15.7

8 Adoption of the CIPFA Treasury Management Code

8.1 This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Authority approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 February 2010.

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

9 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

9.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. The Fire Authority calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate).

9.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The upper limits for both fixed and variable rate exposure have been set to give the Authority maximum policy flexibility.

	Existing level at 30/11/12	2012/13 Approved	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Borrowing						
Upper Limit for Fixed Interest Rate Exposure	£8.6m	£18.4m	£18.4m	£17.2m	£16.4m	£15.7m
Upper Limit for Variable Interest Rate Exposure	£0m	£18.4m	£18.4m	£17.2m	£16.4m	£15.7m
Investments						
Upper Limit for Fixed Interest Rate Exposure	£16.0m	-	£32.2m	£24.2m	£18.1m	£15.6m
Upper Limit for Variable Interest Rate Exposure	£7.8m	-	£24.2m	£18.2m	£13.6m	£11.7m

10 Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and 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.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level at 31/03/12 %	Lower Limit for 2013/14 %	Upper Limit for 2013/14 %
Under 12 months	0	0	50
12 months and within 24 months	0	0	50
24 months and within 5 years	0	0	50
5 years and within 10 years	20	0	75
10 years and within 20 years	25	0	75
20 years and within 30 years	55	0	75
30 years and within 40 years	0	0	100
40 years and within 50 years	0	0	100
50 years and above	0	0	100

11 Credit Risk

11.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority’s assessment of counterparty credit risk.

11.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country’s net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values remain to be credit ratings.

Other indicators of creditworthiness are considered in relative rather than absolute terms.

12 Upper Limit for total principal sums invested over 364 days

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015 /16 Estimate £m
Upper Limit for Total Principal Sums Invested over 364 Days	2.0	5.0	5.0	5.0	5.0

Economic & Interest Rate Forecast

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Official Bank Rate													
Upside risk				0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Central case	0.55	0.55	0.60	0.60	0.60	0.70	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
1-yr LIBID													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.10	1.10	1.25	1.25	1.25	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.80	0.80	0.90	0.90	0.90	1.00	1.00	1.00	1.00	1.10	1.10	1.10	1.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.75	2.80	2.80	2.80	2.80	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50-yr gilt													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.25	3.30	3.30	3.30	3.40	3.40	3.40	3.50	3.50	3.50	3.50	3.60	3.60
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Underlying Assumptions:

- Consumer Price Inflation has fallen further to 2.2% from a peak of 5.2%. Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- Despite poor underlying growth resulting in much weaker public finances than forecast and a slower pace of fiscal consolidation, the Chancellor is expected to maintain the deficit-cutting strategy in the Autumn Statement.
- The US Federal Reserve has responded to the slowdown in growth and employment with QE3, with large scale asset purchases of $40bn a month until the outlook for the labour market improves substantially. The US public finance ‘fiscal cliff’ nevertheless remains a serious risk unless a political solution is reached soon.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the OMT

programme, some progress towards banking union) which has placated markets and curtailed some of the immediate risks. A sustainable solution to the Eurozone crisis is some way off as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

Current Recommended Sovereign and Counterparty List as at 30/11/2012

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Maturity Limit
UK	Santander UK Plc (Banco Santander Group)	5	2 years
UK	Lloyds TSB (Lloyds Banking Group)	5	2 years
UK	Barclays Bank Plc	5	2 years
UK	HSBC Bank Plc	5	2 years
UK	Nationwide Building Society	5	2 years
UK	NatWest (RBS Group)	5	2 years
UK	Standard Chartered Bank	5	2 years
Australia	Australia and NZ Banking Group	5	2 years
Australia	Commonwealth Bank of Australia	5	2 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	5	2 years
Australia	Westpac Banking Corp	5	2 years
Canada	Bank of Montreal	5	2 years
Canada	Bank of Nova Scotia	5	2 years
Canada	Canadian Imperial Bank of Commerce	5	2 years
Canada	Royal Bank of Canada	5	2 years
Canada	Toronto-Dominion Bank	5	2 years
Finland	Nordea Bank Finland	5	2 years
Finland	Pohjola	5	2 years
France	BNP Paribas	5	2 years
France	Credit Agricole CIB (Credit Agricole Group)	5	2 years
France	Credit Agricole SA (Credit Agricole Group)	5	2 years
France	Société Générale	5	2 years
Germany	Deutsche Bank AG	5	2 years
Netherlands	ING Bank NV	5	2 years
Netherlands	Rabobank	5	2 years
Netherlands	Bank Nederlandse Gemeenten	5	2 years

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Maturity Limit
Singapore	DBS Bank Ltd	5	2 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	5	2 years
Singapore	United Overseas Bank (UOB)	5	2 years
Sweden	Svenska Handelsbanken	5	2 years
Switzerland	Credit Suisse	5	2 years
US	JP Morgan	5	2 years

Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools or a new suitable counterparty comes into the market. Alternatively, if a counterparty is downgraded, this list may be shortened.

Non-Specified Investments

Instrument	Maximum maturity	Max % of the portfolio
Term deposits with banks, building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	100
Term deposits with local authorities	3 years	100
CDs and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from TM Adviser)	2 years	100
Deposits with registered providers	-	-
Gilts	-	-
Bonds issued by multilateral development banks	-	-
Sterling denominated bonds by non-UK sovereign governments	-	-
Money Market Funds and Collective Investment Schemes	2 years	50
Corporate and debt instruments issued by corporate bodies purchased from 01/04/12 onwards	-	-

In the current economic conditions there are no plans to invest in any of the instruments that do not have limits specified. If economic conditions do change to the extent that it becomes advantageous to invest in any of these instruments limits will be agreed with the Treasurer within the overall framework set by this strategy.

MRP Statement 2013/14

CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2013/14: Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for supported capital expenditure if the Authority chooses).

The MRP Statement will be submitted to the Authority before the start of the 2013/14 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Authority at that time.

The Authority will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.

And

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.