Appendix 1

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 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, Hampshire County Council adopted the CIPFA Treasury Management Code at its meeting on 18 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 County Council 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 County Council's treasury management strategy.

1.5 **This Report recommends the following be approved:**

- **Treasury Management Strategy and Annual Investment Strategy for 2013/14, (although this would also be adopted for the rest of 2012/13) including Annexes D and E**
- **Prudential Indicators for 2013/14, 2014/15 and 2015/16 – Annex B**
- **Minimum Revenue Provision (MRP) Statement – Annex F**

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 Council's Treasury Management activities.

2.2 As at 31 December 2012 the Council currently has £522m of debt and £462m of investments. This is set out in further detail at Annex A.

2.3 The Council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The Council is only likely to borrow in advance of need if it felt 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 Council's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Capital Financing Requirement	717	769	789	786
Less: External Borrowing	-388	-379	-369	-354
Less: Other Long Term Liabilities (finance leases & PFI)	-139	-163	-183	-175
Cumulative Maximum External (gross) Borrowing Requirement	190	227	237	257
Usable Reserves & General Fund	-307	-280	-276	-282
Cumulative Net Borrowing Requirement/(-) Investment	-117	-53	-39	-25

3 Interest Rate Forecast

3.1 The economic and interest rate forecast provided by the County Council's treasury management advisor, Arlingclose Ltd, is attached at Appendix C. The Council 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 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a “cost of carry” for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. The cost of carry is likely to be an issue until 2016 or beyond. As borrowing is often for longer dated periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the Council’s wider financial position.

4.2 As indicated in Table 1, the Council has a gross borrowing requirement of £227m in 2013/14 but has sufficient balances and reserves to avoid the need for external borrowing. By essentially lending its own surplus funds to itself the Council is able 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 the County Council will keep under review the following borrowing sources:

- Internal
- Public Works Loan Board (PWLB)
- Local authorities
- 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 cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns.

5.3 The Council has £73.0m exposure to LOBO loans (Lender's Option Borrower's Option) of which all of these can be "called" within 2013/14. A LOBO is called when the lender exercises its right to amend the interest rate on the loan at which point the borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender's discretion, although the likelihood of a lender exercising their right to increase the interest rate on a LOBO loan in the current low interest rate environment is negligible.

5.4 Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty, i.e. the revised terms will not be accepted.

6 Debt Rescheduling

6.1 The Council'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 Borrowing and rescheduling activity will be reported to Cabinet in the Annual Treasury Management Report or the treasury management monitoring report.

7 Annual Investment Strategy

7.1 In accordance with Investment Guidance issued by the CLG and best practice the County Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments is secondary, followed by the yield earned on investments which is a tertiary consideration.

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

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 Council 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 Council and whether they are specified or non-specified are shown in Table 2 below, further details can be found in Annexes 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 Council 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 Council 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 County Council banks with NatWest. At the current time it meets the Council’s minimum credit criteria. If its credit rating were to fall below the Council’s minimum criteria the position would be reviewed to ensure the risk to investments was minimised, but as the Council’s banker. NatWest may 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 an investment counterparty providing acceptable levels of counterparty risk.

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 An exception to this would be lending further funds to UK local authorities or other similarly highly credit rated counterparties for up to 25 years specifically in relation to forecasted cash flow surpluses on the Council’s 25-year Street Lighting PFI project. This would be in addition to the £15m that has already been invested on this basis. The objective would be to secure an investment income stream for the project based on a targeted interest rate of 4.0%.

8.5 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the Council will also seek to mitigate operational risk by utilising at least two MMFs. The Authority will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of constant net asset value MMFs.

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 Council 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.

10 2013/14 MRP Statement

10.1 The Council 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 Annex 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 Director of Corporate Resources. The Prudential Indicators will be monitored through the year by the Director of Corporate Resources and reported as set out below. The Director of Corporate Resources will report to the Cabinet 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 Council will produce an outturn report on its treasury activity no later than 30 September after the financial year end.
- The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

12 Other Items

12.1 CIPFA's Code of Practice requires a responsible officer, which is the Director of Corporate Resources, 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. A treasury management workshop jointly presented by the Director of Corporate Resources and Arlingclose on 20 November 2012 provided members with an update in treasury matters. The training needs of the Council's treasury management staff are subject to regular review.

12.2 The Director of Corporate Resources 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	310.4	5.02
LOBOs	73.0	4.45
SALIX (energy efficiency) loan	0.3	0
Other Long Term Liabilities:		
Finance Leases & PFI	138.6	-
Total Gross External Debt	522.3	-
Investments:		
Managed in-house		
Short term investments (<12 months):		
Lending to UK banks and building societies	314.8	0.87
Money market funds	4.3	0.48
Lending to other UK local authorities	45.0	1.22
Long term investments (>12 months):		
Lending to other UK local authorities	98.0	1.40
Total Investments	462.1	1.01
Net Investments/(Debt)	-60.2	-

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 Council 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 Director of Corporate Resources reports that the Council had no difficulty meeting this requirement during 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 £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital Expenditure	144,041	220,536	233,882	191,586

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Revised £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Capital receipts	40,295	16,981	8,220	1,955
Government Grants	70,208	87,831	114,150	80,326
Capital reserve	-25,675	17,436	24,165	5,884
Revenue contributions	44,157	24,491	23,920	23,393
Capital contributions	10,741	17,971	34,482	47,192
Contributions from reserves	16,488	3,887	1,630	630
Total Financing	156,214	168,597	206,567	159,380
Supported borrowing	7,847	25,000	5,000	0
Prudential borrowing	-20,020	26,939	22,315	32,206
Total Funding	-12,173	51,939	27,315	32,206
Total Financing and Funding	144,041	220,536	233,882	191,586

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	9.56%	8.67%	8.90%	8.71%

5 Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council'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	735.2	717.0	768.6	789.1	786.3

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
Borrowing costs	£0.57	£0.97	£4.16	£4.32
Running expenses and revenue contributions to capital	£0.36	£1.33	£0.60	£1.78
Increase in Band D Council Tax	£0.93	£2.30	£4.76	£6.10

7 Authorised Limit and Operational Boundary for External Debt:

7.1 The Council 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 Council 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 Council. 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 Council'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 which is captured in the Authorised Limit, with sufficient headroom over and above this to allow for unusual cash movements.

	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Authorised Limit for Borrowing	680	680	660	660	670
Authorised Limit for Other Long-term Liabilities	140	160	190	210	200
Authorised Limit for External Debt	820	840	850	870	870
Operational Boundary for Borrowing	600	600	640	640	640
Operational Boundary for Other Long-term Liabilities	140	140	170	190	180
Operational Boundary for External Debt	740	740	810	830	820

8 Adoption of the CIPFA Treasury Management Code

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 February 2010.

The Council 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 Council to manage the extent to which it is exposed to changes in interest rates.

9.2 The upper limit for variable rate exposure has been set to ensure that the Council 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 Council maximum policy flexibility.

	Existing level at 31/12/12 £m	2012/13 Approved £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Borrowing						
Upper Limit for Fixed Interest Rate Exposure	449	740	740	810	830	820
Upper Limit for Variable Interest Rate Exposure	73	740	740	810	830	820
Investments						
Upper Limit for Fixed Interest Rate Exposure	353	n/a	600	600	600	600
Upper Limit for Variable Interest Rate Exposure	109	n/a	510	510	510	510

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	3	0	50
12 months and within 24 months	3	0	50
24 months and within 5 years	12	0	50
5 years and within 10 years	16	0	75
10 years and within 20 years	29	0	75
20 years and within 30 years	35	0	75
30 years and within 40 years	2	0	100
40 years and within 50 years	0	0	100
50 years and above	0	0	100

11 Credit Risk

11.1 The Council 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 Council's assessment of counterparty credit risk.

11.3 The Council 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 Council 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	120	150	150	150	150

Economic & Interest Rate Forecast

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
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	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
3-month LIBID													
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.40**	**0.40**	**0.40**	**0.45**	**0.45**	**0.50**	**0.50**	**0.50**	**0.55**	**0.55**	**0.55**	**0.60**	**0.60**
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	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75
Central case	**0.85**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.10**	**1.10**
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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**0.95**	**0.95**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	**1.00**	**1.10**	**1.10**	**1.10**	**1.20**	**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	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**2.00**	**2.00**	**2.05**	**2.05**	**2.05**	**2.05**	**2.10**	**2.10**	**2.10**	**2.20**	**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	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
Central case	**2.90**	**2.90**	**2.90**	**2.90**	**3.00**	**3.00**	**3.00**	**3.00**	**3.10**	**3.10**	**3.10**	**3.10**	**3.10**
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
50-yr gilt													
Upside risk	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
Central case	**3.35**	**3.35**	**3.35**	**3.40**	**3.40**	**3.40**	**3.50**	**3.50**	**3.50**	**3.50**	**3.60**	**3.60**	**3.60**
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

Underlying Assumptions:

UK growth is unlikely to return to above trend for the foreseeable future. Q3 GDP was strong at 0.9% but this momentum is unlikely to be sustained in 2013 as shown in the Q4 figures. The rebalancing from public-sector driven consumption to private sector demand and investment is yet to manifest, and there is little sign of productivity growth. Further contraction in the Eurozone, including Germany's powerful economy, and slower forecast growth in the emerging economies (Brazil/Mexico/India) are exacerbating the weakness.

Consumer Price Inflation has fallen to 2.7 % 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. Real wage growth (i.e. after inflation) is forecast to remain weak.

The fiscal outlook for bringing down the structural deficit and stabilising debt levels remains very challenging. Weakened credibility of the UK reining in its levels of debt poses a risk to the AAA status, but recent history (US, France) suggests this may not automatically result in a sell-off in gilts.

In the absence of large, unexpected decline in growth, Quantitative Easing is likely to remain on hold at £375bn for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.

The US Federal Reserve's shift in its rate guidance from a date-based indication to economic thresholds (6.5% unemployment, inflation 1 – 2 years out projected to remain below 2.5%, longer term inflation expectations remain well anchored) is likely to increase market uncertainty around the highly volatile US employment data releases.

The Eurozone is making slow headway which has curtailed some of the immediate risks although peripheral countries continue to struggle. Fully-fledged banking and fiscal union is still some years away.

In the US, the issues of spending cuts, reducing the budget deficit and raising the country's debt ceiling remain unresolved. A failure to address these by March 2013 could lead to a similar showdown and risks a downgrade to the US sovereign credit rating by one or more agencies.

A reversal in market risk sentiment from current "risk on" to "risk off" could be triggered by economic and/or political events – impending Italian and German elections, US debt ceiling impasse, difficulty surrounding Cyprus' bailout, and contagion returning to haunt the European peripheral nations – which could inject renewed volatility into gilts and sovereign bonds.

Current Recommended Sovereign and Counterparty List as at 31/12/2012

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Maturity Limit
UK	Barclays Bank Plc	75	2 years
UK	HSBC Bank Plc	75	2 years
UK	Lloyds TSB (Lloyds Banking Group)	75	2 years
UK	Nationwide Building Society	75	2 years
UK	NatWest (RBS Group)	75	2 years
UK	Santander UK Plc (Banco Santander Group)	75	2 years
UK	Standard Chartered Bank	75	2 years
Australia	Australia and NZ Banking Group	75	2 years
Australia	Commonwealth Bank of Australia	75	2 years
Australia	National Australia Bank Ltd (National Australia Bank Group)	75	2 years
Australia	Westpac Banking Corp	75	2 years
Canada	Bank of Montreal	75	2 years
Canada	Bank of Nova Scotia	75	2 years
Canada	Canadian Imperial Bank of Commerce	75	2 years
Canada	Royal Bank of Canada	75	2 years
Canada	Toronto-Dominion Bank	75	2 years
Finland	Nordea Bank Finland	75	2 years
Finland	Pohjola	75	2 years
France	BNP Paribas	75	2 years
France	Credit Agricole CIB (Credit Agricole Group)	75	2 years
France	Credit Agricole SA (Credit Agricole Group)	75	2 years
France	Société Générale	75	2 years
Germany	Deutsche Bank AG	75	2 years
Netherlands	ING Bank NV	75	2 years
Netherlands	Rabobank	75	2 years
Netherlands	Bank Nederlandse Gemeenten	75	2 years

Country/ Domicile	Counterparty	Maximum Counterparty Limit £m	Maximum Maturity Limit
Singapore	DBS Bank Ltd	75	2 years
Singapore	Oversea-Chinese Banking Corporation (OCBC)	75	2 years
Singapore	United Overseas Bank (UOB)	75	2 years
Sweden	Svenska Handelsbanken	75	2 years
Switzerland	Credit Suisse	75	2 years
US	JP Morgan	75	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 Director of Corporate Resources 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 Council chooses).

The MRP Statement will be submitted to The Council 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 Council at that time.

The Council 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.