Agenda Item No: **6**

Cabinet (Resources) Panel

11 February 2014

Report title	Quarter Three Treasury Management Activity Monitoring
Decision designation	AMBER
Cabinet member with lead responsibility	Councillor Andrew Johnson Resources
Key decision	No
In forward plan	Yes
Wards affected	All
Accountable directors	Simon Warren, Chief Executive Sarah Norman, Community Keith Ireland, Delivery Tim Johnson, Education and Enterprise
Originating service	Strategic Finance
Accountable employee(s)	Mark Taylor — Assistant Director Finance Tel 01902 556609 Email Mark.Taylor@wolverhampton.gov.uk
Report to be/has been considered by	N/A

Recommendations for noting:

The Cabinet (Resources) Panel is asked to note:

1. The contents of this report and in particular that the Council is continuing to operate within the Prudential and Treasury Management Indicators approved by Council, and also within the requirements set out in the Council's approved Treasury Management Policy Statement.

1.0 Purpose

1.1 This report provides a monitoring and progress report on Treasury Management Activity for the third quarter of 2013/14, in line with the revised Prudential Indicators approved by Council in September 2013.

1.2 Overall, the Council is continuing to operate within the Prudential and Treasury Management Indicators approved by Council, and also within the requirements set out in the Council's approved Treasury Management Policy Statement.

1.3 The Council's treasury management activities are forecast to deliver savings of £1.0 million for the General Fund and £3.0 million for the Housing Revenue Account (HRA) for 2013/14.

2.0 Background

2.1 The treasury management activities of the Council are underpinned by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011. The primary requirements of the Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by Cabinet / Council of an annual strategy report for the year ahead, a mid-year review report and an annual review report of the previous year.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Nomination of the Confident, Capable Council Scrutiny Panel to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2.2 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 The system of controls on local authority capital investment has been in place since 1 April 2004. This replaced the previous complex regulatory framework governing local authority capital expenditure. The current system is one based largely on self-regulation by local authorities themselves. At its heart is CIPFA's Prudential Code for Capital Finance.

2.4 The Cabinet (Resources) Panel receive quarterly reports throughout the year to monitor performance against the strategy and Prudential Indicators that have previously been approved by Council.

2.5 The Council continued to use Capita Asset Services, previously known as Sector Treasury Services Limited, as its treasury management advisors throughout 2013/14. Capita provides market data and intelligence on which the council can make decisions regarding all aspects of treasury management activities and in particular, managing the risks associated with investing surplus cash.

3.0 2013/14 Forecast Outturn

3.1 The forecast outturn for treasury management activities in 2013/14 compared to budget is shown in Table 1 below.

Table 1 – Treasury Management Budget and Forecast Outturn 2013/14

	Approved Budget £000	Forecast Outturn £000	Variance £000
General Fund	22,767	21,753	(1,014)
Housing Revenue Account	15,774	12,799	(2,975)
Total	38,541	34,552	(3,989)

3.2 The strategy to date in 2013/14 has been to maintain cash balances at a reduced level, therefore keeping to a minimum the credit risk incurred by holding investments and to avoid the higher costs of external borrowing compared to interest foregone on cash balances, thereby generating revenue savings.

3.3 Overall a saving of £1.0 million for the General Fund and a saving of £3.0 million for the HRA are projected for the year 2013/14.

3.4 Appendix A shows a comparison of the latest estimates of Prudential and Treasury Management Indicators over the medium term period with the equivalent revised figures which were approved by Council in September 2013.

4.0 Borrowing Forecast for 2013/14

4.1 The Council's need to borrow and the rates available continue to be monitored in order to achieve optimum results. The Council's medium term forecast is regularly updated to reflect actual borrowing that takes place along with any revisions to future anticipated borrowing.

4.2 Table 2 shows the average rate of interest payable in 2012/13 and forecast for 2013/14.

Table 2 - Average Interest Rate Payable in 2012/13 and 2013/14

	2012/13 Actual	2013/14 Forecast
Average Interest Rate Payable	4.42%	4.20%

4.3 The average rate of interest payable by the Council is estimated to fall from 4.42% to 4.20% for 2013/14. New borrowing forecast rates for the year are shown in Table 3 below.

Table 3 - Rates available for PWLB borrowing (incl. Certainty rate discount)

Current Rates	As at 31 December 2013
5 Year Maturity Loan Rate	2.76%
10 Year Maturity Loan Rate	3.88%
25 Year Maturity Loan Rate	4.44%

4.4 Each year it is necessary to raise new loans to finance capital expenditure and to replace existing maturing debt. The Council's policy is to prioritise the use of capital receipts to finance capital expenditure. Balances which are set aside to meet credit liabilities (i.e. to repay debt) are used to reduce the external borrowing requirement. Decisions to take borrowing will be made by the Assistant Director Finance when it is judged that rates are likely to be at their lowest levels, and probably about to rise according to market indications, and only when an inflow of funds is required to meet imminent cash flow commitments. This will keep overall surplus cash balances to a minimum, in line with the current strategy. Appendix B shows the maturity profile of current external borrowing.

4.5 Any short term savings made by avoiding new long term external borrowing in 2013/14 and thereafter, will also need to be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years, when PWLB long term rates are forecast to be significantly higher. Appendix C includes Capita commentary for quarter three 2013/14 and shows that they have forecast that interest rates for both short and long term borrowing will remain stable up to March 2014. The Assistant Director Finance will continue to keep actual and forecast rates under close review.

4.6 The forecast net borrowing requirement for 2013/14 is £96.8 million, as shown in Appendix F. £36.5 million of temporary borrowing has been taken out during quarter three, and £4.4 million of PWLB borrowing repaid. Appendix D shows a detailed breakdown of new loans and repayments made throughout the year.

4.7 Appendix E shows a graphical summary of current borrowing by type; fixed and variable as at 31 December 2013.

4.8 Appendix F shows details for the disclosure for certainty rate, which will enable the Council to submit a return for 2014/15 and thereby secure access to discounted borrowing at 0.20% below normal PWLB rates.

5.0 Investment Forecast for 2013/14

5.1 The approach during the year is to continue to use cash balances to finance capital expenditure so as to keep cash balances low.

5.2 Table 4 shows the total amount of surplus funds invested as at 30 September 2013 and 31 December 2013.

Table 4 - Total Amounts Invested 2013/14

	30 September 2013 £000	**31 December 2013 £000**
Business Reserve Accounts Money Market Funds	4 70	4 5,960
	74	**5,964**
Average cash balance for the year to date	44,273	33,664

5.3 Money Market Funds and Business Reserve Accounts are the main investments used as these have high credit ratings and instant access. This is based on the Council’s low appetite for risk.

5.4 The Council’s cash flow balance for the third quarter of the current financial year has moved between a low of £119,000 and a maximum of £24.9 million. The average cash balance for the quarter being £10.9 million.

5.5 Table 5 shows the average rate of interest receivable in 2012/13 and forecast for 2013/14.

Table 5 - Average Interest Rate Receivable in 2012/13 and 2013/14

	2012/13 Actual	2013/14 Forecast
Average Interest Rate Receivable	0.71%	0.46%

5.6 The average rate of interest receivable by the Council is estimated to fall significantly from 0.71% to 0.46% for 2013/14. This reduction is due to the significantly reduced interest rates currently available and anticipated throughout the year.

5.7 The Council will avoid locking into longer term deals while investment rates are at historically low levels. Investment rates are expected to continue to be below long term borrowing rates, in which case, the Council can minimise its overall net treasury costs in the short term by continuing to avoid new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing).

5.8 The Council manages its investments in-house and invests only in the institutions listed in the Council's approved lending list, which is reviewed each time a counterparty is subject to a credit rating amendment. The Council's strategy allows for investments for a range of periods from overnight to five years, depending on the council's cash flows, its interest rate view and the interest rates on offer. However, in order to maintain sufficient liquidity whilst total investment levels are relatively low, most investments have been placed for shorter durations.

5.9 The approved Treasury Management Code of Practice sets out the criteria to be used for creating and managing approved counterparty lists and limits. As a result of any changes to credit criteria, the Assistant Director Finance is authorised to make changes to the list of approved counterparties. In the event that any of these counterparties fall below the Council's minimum lending criteria, activity in that account will temporarily cease and any balance withdrawn immediately. Appendix G shows the Council's current specified investments lending list.

5.10 In quarter three 2013/2014 the Assistant Director Finance has not been required to use his discretion to temporarily exceed any upper limits with approved counterparties.

6.0 Financial implications

6.1 The financial implications are discussed in the body of this report.

[SH/31012014/C]

7.0 Legal implications

7.1 Treasury Management relates to the management of the council's cash flow, borrowing and cash investments. This involves seeking the best rates of interest for borrowing, earning interest on investments, whilst managing risk in making financial decisions and adopting proper accounting practice.

7.2 The area is heavily regulated. The Local Government and Housing Act 1989 regulate the operation of the Housing Revenue Account. The 'CIPFA Code of Practice for Treasury Management in the Public Services', contains Treasury Management indicators and advice on Treasury Management Strategy. Investment strategy is regulated by 'DCLG Guidance on Local Government Investments' issued initially in 2004 and re-issued in 2010. Part 2 of this Guidance is statutory guidance.

[JH/31012014/D]

8.0 Equalities implications

8.1 This report has no equality implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Schedule of background papers

Treasury Management Activity Monitoring – Mid Year Review 2013/14, Report to Cabinet (Resources) Panel, 26 November 2013

Block 10 and 11, Wolverhampton Interchange, Report to Cabinet, 18 September 2013

Annual Treasury Report 2012/13 & Treasury Management Activity Monitoring – Quarter One 2013/14, Report to Cabinet, 24 July 2013

Treasury Management Strategy 2013/14, Report to Cabinet, 26 February 2013

11.0 Schedule of Appendices

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APPENDIX A

Debt and Treasury Management - Prudential and Treasury Management Indicators

Prudential Indicators (PI)

PI for Affordability - These indicators are used to ensure the total capital investment of the council is within a sustainable limit and the impact of these decisions are considered with regard to acceptable council tax and housing rent levels.

PI 1 - Estimates and Actual ratio of financing costs to net revenue stream.
This represents the cost of financing capital expenditure as a % of net revenue for both the General Fund and HRA.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
General Fund	9.3%	12.3%	12.9%	8.6%	10.5%	14.4%
HRA	13.3%	12.9%	11.8%	13.4%	13.1%	13.0%

PI 2 - Estimates of the incremental impact of capital investment decisions on the council tax and housing rents.
The council could consider different options for its capital investment programme in relation to their different impact on the council tax and housing rents. Negatives reflect a reduction in total capital expenditure.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast £	2014/15 Forecast £	2015/16 Forecast £	2013/14 Forecast £	2014/15 Forecast £	2015/16 Forecast £
For Band D council tax (After council tax reform)						
Implications of the Capital Programme for Year	103.15	145.53	163.21	73.01	201.63	246.99
Financial Year Impact	103.15	145.53	163.21	73.01	201.63	246.99
For average weekly housing rents						
Implications of the Capital Programme for Year	0.91	1.67	1.75	2.71	4.59	5.27
Financial Year Impact	0.91	1.67	1.75	2.71	4.59	5.27
For Band D council tax (After council tax reform)						
Implications of the Capital Programme for Year	-	12.25	12.25	(30.38)	(12.07)	1.01
Marginal Impact to 2013/14 Treasury Management Strategy	-	12.25	12.25	(30.38)	(12.07)	1.01
For average weekly housing rents						
Implications of the Capital Programme for Year	-	-	-	-	-	-
Marginal Impact to 2013/14 Treasury Management Strategy	-	-	-	-	-	-
For Band D council tax (Before council tax reform)						
Implications of the Capital Programme for Year	80.22	113.18	126.93	56.78	156.82	192.10
Financial Year Impact	80.22	113.18	126.93	56.78	156.82	192.10
For Band D council tax (Before council tax reform)						
Implications of the Capital Programme for Year	-	9.53	9.53	(23.63)	(9.39)	0.78
Marginal Impact to 2013/14 Treasury Management Strategy	-	9.53	9.53	(23.63)	(9.39)	0.78

PI 3 - Estimates and actual capital expenditure.
Full details of capital expenditure plans and funding can be found in the Quarter Three Capital Budget Monitoring report.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
General Fund	137,040	67,287	21,388	140,696	111,799	36,889
HRA	52,359	43,271	23,621	75,255	57,928	30,477
	189,399	110,558	45,009	215,951	169,727	67,366

APPENDIX A

Debt and Treasury Management - Prudential and Treasury Management Indicators

PI 4 - Estimates and actual capital financing requirement General Fund and HRA.
The capital financing requirement measures the authority's underlying need to borrow for a capital purpose.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
General Fund	472,390	481,236	473,693	466,601	569,450	578,215
HRA	318,992	314,669	299,326	340,217	352,603	347,163
	791,382	795,905	773,019	806,818	922,053	925,378

PI 5 - Authorised limit for external debt.
These limits apply to the total external debt gross of investments and separately identify borrowing from other long term liabilities such as finance leases including Private Finance Initiatives (PFI).

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Limit £000	2014/15 Limit £000	2015/16 Limit £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
Borrowing	838,982	865,165	871,073	744,819	854,461	874,502
Other Long Term Liabilities	66,815	113,975	102,951	63,186	109,740	98,092
Total	905,797	979,140	974,024	808,005	964,201	972,594

PI 6 - Operational boundary for external debt.
This is based on the same estimates as the authorised limit but directly reflects the Assistant Director Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Limit £000	2014/15 Limit £000	2015/16 Limit £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
Borrowing	820,095	856,151	868,089	724,784	828,526	865,307
Other Long Term Liabilities	66,815	104,293	102,951	63,186	100,057	98,092
Total	886,910	960,444	971,040	787,970	928,583	963,399

PI 7 - HRA limit on indebtedness.
This maximum debt limit has been set by Government as part of the self-financing regime and is compared to the HRA capital financing requirement.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
HRA Debt Limit	356,771	356,771	356,771	356,770	356,770	356,770
HRA Capital Financing Requirement*	318,992	314,669	299,326	340,217	352,603	347,163
Headroom	37,779	42,102	57,445	16,553	4,167	9,607

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Debt and Treasury Management - Prudential and Treasury Management Indicators

PI for Prudence - Ensuring that external debt is sustainable and compliance with good professional practice are essential features of prudence.

PI 8a - Gross debt and the capital financing requirement.
"In order to ensure that over the medium term debt will only be for a capital purpose, the local 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". This new indicator by CIPFA replaces PI 8 net debt and the capital financing requirement from

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
Forecast Capital Financing Requirement at end of Second Year	791,382	795,382	795,382	925,378	925,378	925,378
Gross Debt	617,330	652,134	662,730	621,329	761,942	796,758
Capital Financing Requirement Greater than Gross Debt	Yes	Yes	Yes	Yes	Yes	Yes

PI 9 - Has the local authority adopted the CIPFA Treasury Management in the Public Services: Code of Practice.	Yes

Treasury Management Indicators (TMI)

TMI 2 - Upper limits on fixed interest and variable interest exposures.
These relate to the levels of net outstanding principal sums exposed to fixed and variable interest rates.

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Limit	2014/15 Limit	2015/16 Limit	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast
Upper limit for fixed rate	100%	100%	100%	81%	84%	85%
Upper limit for variable rate	20%	20%	20%	19%	16%	15%

TMI 3 - Upper and lower limits to the maturity structure of borrowing.
These limits relate to the % of fixed rate debt maturing.

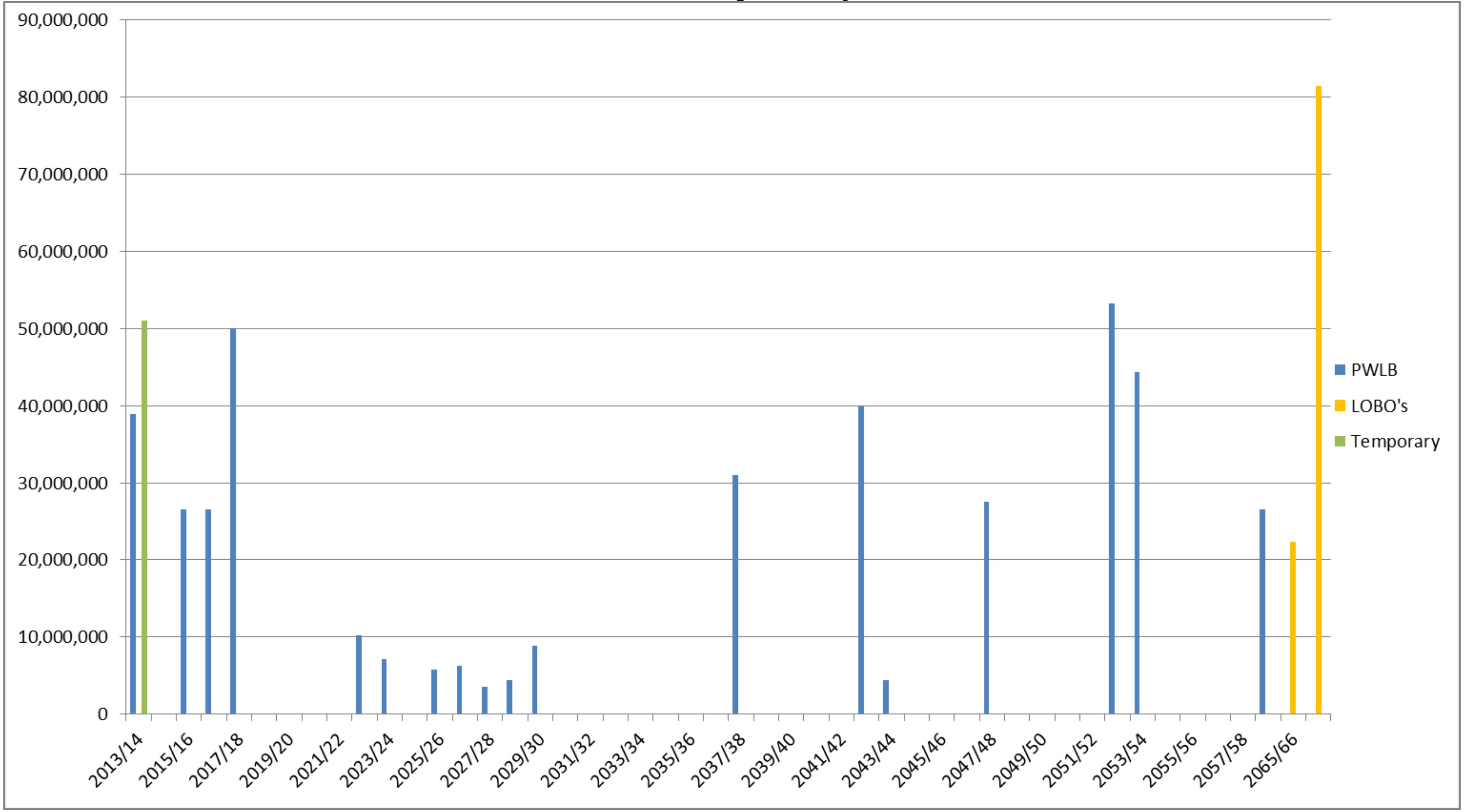
	Approved by Cabinet 18 September 2013			As at December 2013		
	Upper Limit	Lower Limit	March 2013 Forecast	2013/14 Forecast Borrowing	2014/15 Forecast Borrowing	2015/16 Forecast Borrowing
Under 12 months	10%	0%	9.29%	9.90%	4.77%	4.47%
12 months and within 24 months	15%	0%	6.34%	14.79%	16.23%	15.23%
24 months and within 5 years	20%	0%	13.34%	19.33%	17.35%	16.28%
5 years and within 10 years	20%	0%	4.12%	3.81%	4.13%	3.88%
10 years and above	90%	50%	66.91%	52.16%	57.51%	60.14%

TMI 4 - Upper limits to the total of principal sums invested longer than 364 days.
This details the maximum amount which can be invested for up to 5 years (as per paragraph 1.5 of the Annual Investment Strategy).

	Approved by Cabinet 18 September 2013			As at December 2013		
	2013/14 Limit £000	2014/15 Limit £000	2015/16 Limit £000	2013/14 Forecast £000	2014/15 Forecast £000	2015/16 Forecast £000
Upper limit for more than 364 days	35,000	35,000	35,000	35,000	35,000	35,000

APPENDIX B

External Borrowing: Maturity Profile



APPENDIX C

Economic Background

The following economic background has been provided by the Council's Treasury Advisors, Capita.

The quarter ended 31 December 2013 saw:

- Signs that GDP growth may have accelerated;
- Evidence pointed to a moderation of household spending growth;
- Inflation fell to its lowest level since November 2009;
- Unemployment approached the MPC's 7% forward guidance threshold;
- The MPC maintained the stance of monetary policy;
- 10-year gilt yields rose to 3% and the FTSE 100 reach 6749;
- The Federal Reserve decided to reduce the size of its monthly asset purchases by $10bn (from $85bn to $75bn).

Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB rate	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%

Capita Asset Services undertook a review of its interest rate forecasts in late November, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 2 of 2016 (previously quarter 3) and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

Capita Asset Services Forward View

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, while the political deadlock and infighting between Democrats and Republicans over the budget has almost been resolved the

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raising of the debt limit, has only been kicked down the road. A final resolution of these issues could have a significant effect on gilt yields during 2014.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.

- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014

- Weak growth or recession in the UK’s main trading partners - the EU and US, depressing economic recovery in the UK.

- Prolonged political disagreement over the raising of the US debt ceiling.

- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.

- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.

- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.

- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.

- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.

- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.

- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.

- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

APPENDIX D

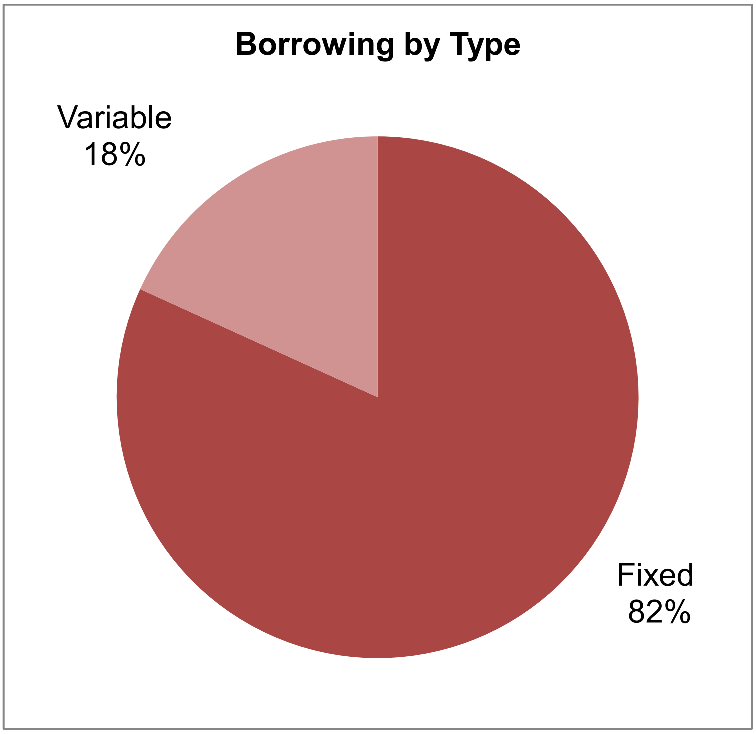
Borrowing and Repayments to Date in 2013/14

	Maturity Date	Amount £000	Length	Interest Rate	Full Year Interest £000
2013/14 Repayments-					
PWLB Fixed Maturity			years		
465183	11/09/2013	4,434	25	9.500%	421
465073	15/12/2013	4,434	25	9.375%	416
		8,868			**837**
2013/14 Borrowing-					
Temporary Loans			days		
Greater Manchester Country Pension Fund	03/01/2014	14,600	95	0.400%	15
Shropshire Council	29/01/2014	5,000	92	0.400%	5
Greater Manchester County Pensions Fund	31/01/2014	12,000	92	0.430%	13
Dacorum Borough Council	03/02/2014	3,000	94	0.370%	3
Caerphilly County Borough Council	05/02/2014	5,000	92	0.290%	4
Hertfordshire Police & Crime Commissioner	28/02/2014	5,000	91	0.500%	6
Derbyshire Superannuation Fund	28/02/2014	5,000	91	0.500%	6
East Renfrewshire Council	28/02/2014	1,500	91	0.500%	2
		51,100			**54**

APPENDIX E

Borrowing: Graphical Summary

As at 31 December 2013



APPENDIX F

Disclosure for Certainty Rate

Certainty Rate
This table details the information that is required to enable the Council to submit a return for 2013/14.

	As at 20 February 2013			As at December 2013		
	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000
Net Borrowing Requirement:						
Borrowing to Finance approved Capital Expenditure	75,548	28,476	11,938	80,141	103,742	36,781
Existing Maturity Loans to be Replaced During the Year	38,977	-	26,605	38,977	0	26,605
Less:						
Minimum Revenue Provision for Debt Repayment	(13,900)	(17,370)	(18,178)	(12,226)	(13,574)	(17,322)
Voluntary Debt Repayment	(11,359)	(14,163)	(16,343)	(10,057)	(11,804)	(14,169)
	(25,259)	(31,533)	(34,521)	(22,283)	(25,378)	(31,491)
Loans Replaced Less Debt Repayment	13,718	(31,533)	(7,916)	16,694	(25,378)	(4,886)
Net Advance Requirement	89,266	(3,057)	4,022	96,835	78,364	31,895

APPENDIX G

Wolverhampton City Council
2013/14 Specified Investments Lending List as at 31 December 2013

Institution	Country (Sovereign Rating)	Limit £000	Term Limit
Australia & New Zealand Banking Group Ltd	Australia (AAA)	10,000	6 mths
Bank Netherlandse Gemeenten	Netherlands (AA+)	20,000	12 mths
Bank of Montreal	Canada (AAA)	10,000	6 mths
Bank of New York Mellon, The	USA (AAA)	10,000	6 mths
Bank of Nova Scotia	Canada (AAA)	10,000	6 mths
Canadian Imperial Bank of Commerce	Canada (AAA)	10,000	6 mths
Clearstream Banking	Luxembourg (AAA)	20,000	12 mths
Commonwealth Bank of Australia	Australia (AAA)	10,000	6 mths
Cooperatieve Centrale Raiffeisen - Boerenleenbank	Netherlands (AA+)	5,000	3 mths
DBS Bank Ltd	Singapore (AAA)	10,000	6 mths
Hong Kong and Shanghai Banking Corporation Ltd	Hong Kong (AA+)	10,000	6 mths
HSBC Bank plc	UK (AA+)	10,000	6 mths
HSBC Bank USA	USA (AAA)	5,000	3 mths
National Australia Bank Ltd	Australia (AAA)	10,000	6 mths
Nordea Bank AB	Sweden (AAA)	10,000	6 mths
Nordea Bank Finland plc	Finland (AAA)	10,000	6 mths
Oversea Chinese Banking Corporation Ltd	Singapore (AAA)	20,000	12 mths
Royal Bank of Canada	Canada (AAA)	10,000	6 mths
Standard Chartered Bank	UK (AA+)	10,000	6 mths
Svenska Handelsbanken AB (35 Day Notice a/c)	Sweden (AAA)	10,000	6 mths
Toronto Dominion Bank	Canada (AAA)	20,000	12 mths
United Overseas Bank Ltd	Singapore (AAA)	20,000	12 mths
Wells Fargo Bank NA	USA (AAA)	10,000	6 mths
Westpac Banking Corporation	Australia (AAA)	10,000	6 mths
Nationalised Banks			
Lloyds Banking Group plc			
Bank of Scotland plc (Corporate Instant Access a/c)	UK (AA+)	10,000	3 mths
Lloyds TSB Bank plc	UK (AA+)	10,000	3 mths
Royal Bank of Scotland Group plc			
National Westminster Bank plc (Call a/c)	UK (AA+)	10,000	3 mths
The Royal Bank of Scotland plc	UK (AA+)	10,000	3 mths
Ulster Bank Ltd	UK (AA+)	10,000	3 mths
Money Market Funds	**Fund Rating**		
Invesco Aim STIC Account	Fitch AAAmmf	20,000	Instant Access
Ignis Sterling Liquidity Fund	Fitch AAAmmf	20,000	Instant Access
Prime Rate Sterling Liquidity Fund	Fitch AAAmmf	20,000	Instant Access
Black Rock Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access
Scottish Widows Sterling Liquidity Fund	Moody's Aaa-mf	20,000	Instant Access

Non-rated Institutions
County Councils, London Boroughs, Metropolitan Districts and Unitary Authorities - limits £6m and 12 months.
Shire District Councils, Fire and Civil Defence Authorities, Passenger Transport Authorities and Police Authorities - limits £3m and 12 months.