Report for: AUDIT COMMITTEE
Item Number: 8

Contains Private and Confidential Information	**YES** (appendix 2)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
Title	Treasury Management Mid-year Update 2013-14	
Responsible Officer	Ian O'Donnell: Executive Director of Corporate Resources. Maria G. Christofi : Director of Finance	
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Portfolio	Finance and Performance - Cllr Yvonne Johnson	
For Consideration By	Audit Committee	
Date to be Considered	23 January 2014	
Implementation Date if Not Called In	N/A	
Affected Wards	N/A	
Area Committees	N/A	
Keywords/Index	Treasury, borrowing, lending, investments	

Purpose of Report:
This report provides an update on the Council's borrowing and investment activities for the half year to 30 September 2013. This update ensures that the Council is delivering its Treasury Management service in an open and transparent manner and that the Council is fulfilling its obligations under the Local Government Act 2003 to provide regular reviews of its activities.The report is being submitted to the Audit Committee to enable members to fulfil their scrutiny role of the Treasury Management function as per CIPFA's Treasury Management Code of Practice. Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and prudential indicators set out in the Council's Treasury strategy. The report also provides information on the economic conditions prevailing in the second quarter of 2013/14.

1. Recommendations

It is recommended that Members:

1.1. Note the Treasury Management activities and performance against target for the second quarter to 30 September 2013.

1.2. Note the Council's current governance and reporting arrangements in line with CIPFA's best practice recommendations, as set out in paragraph 7.

1.3. Note the Council's current lending list (set out in confidential Appendix 2).

1.4. Note that the Council continues to operate a dual Treasury Management strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt.

1.5. Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the Council.

1.6. Note the update on the Council's deposit retained in an Icelandic escrow account.

2. Reason for Decision and Options Considered

2.1. This report updates on both the borrowing and investment decisions made by the Director of Finance under delegated authority in the context of prevailing economic conditions and considers Treasury Management Performance measured against its benchmark.

2.2. Treasury management is defined as "the management of the council's investments and cashflows; 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".

<u>Summary</u>

2.3. The main points from this report are:

- All treasury management activities were effected by authorised officers within the limits agreed by the Council.
- All investments were made to counterparties within the Council's approved lending list.
- The Council's remaining investment of £0.407m with the Icelandic Bank, Glitnir, is held in an escrow account in Islandsbanki (new Glitnir) and continues to earn interest at the rate of 4.2%.
- There has been no long-term borrowing raised so far this year.
- The Council earned 0.536% on its lending, outperforming the actual rolling average 7 Day Libid rate of 0.362%.
- The Council currently holds no investments with overseas financial institutions (apart from the balance of £0.407m retained in Iceland).
- The HRA debt is being managed separately from General Fund debt.

2.4. A glossary of terms used is set out at the end of this report, to make this technical report as user friendly as possible.

3. Treasury Management Strategy 2013/14

3.1. The Council's Treasury Management Strategy for 2013/14 was approved on the 26 February 2013 by Full Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2013/14 and covered the following:

- update on Pension Fund cash/Treasury limits and current portfolio position
- treasury budget and current position;
- treasury and prudential indicators which will limit the treasury risk and activities of the Council;
- the minimum revenue provision (MRP) strategy;
- economic background and prospects for interest rates;
- the borrowing strategy and policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

3.2. The Council has complied with the strategy throughout the first half of the year to 30 September 2013.

<u>Investment of Pension Fund Cash</u>

3.3. The Council retains some Pension Fund cash in house. This is the excess of employers and employees contributions over the payments of pension benefits and expenses that accrue from the Pension Fund revenue account, operated by the Council as the administering authority for the scheme. From time to time balances are transferred to external Fund Managers to invest, but a small amount is usually retained internally to manage cashflows, or larger amounts to facilitate an asset reallocation strategy.

3.4. As agreed by Members at the Pension Fund Panel meeting on the 9 March 2011 and in accordance with regulations, the Pension Fund cash was invested separately from the Council's cash in fixed term deposit bank accounts throughout the quarter. All Pension Fund transactions however still flow through the Council's bank account and transfers are made.

3.5. The Pension Fund invests its surplus cash in accordance with the Council's Treasury Management strategy agreed by Full Council on the 26 February 2013, which is delegated to the Director of Finance to manage within agreed parameters. The Treasury Management Strategy is reviewed on a monthly basis at the Treasury Risk & Investment Board (TRIB), a meeting consisting of Corporate Finance officers, and chaired by the Executive Director of Corporate Resources. The Pensions Fund Panel is updated on Pension Fund investment activity and the Chair of the Pension Fund Panel (PFP) is briefed regularly.

4. Economic Background

4.1 The following is a summary of the key issues for the quarter ending 30 September :

- Indicators suggested that the economic recovery accelerated;
- Household spending growth remained robust;
- Inflation fell back towards the 2% target;
- The Bank of England introduced state-contingent forward guidance;
- 10-year gilt yields rose to 3% at their peak and the FTSE 100 fell slightly to 6460;
- The Federal Reserve decided to maintain the monthly rate of its asset purchases.

4.2 After strong growth of 0.7% in Q2, it appears that UK GDP is likely to have grown at an even faster pace in Q3. On the basis of past form, the CIPS/Markit business surveys for July and August point to quarterly growth of potentially over 1.0% in the third quarter of 2013. Similarly, the official data has also continued to improve. Admittedly, industrial production was flat in July, however , even if it held steady in the rest of the quarter, it would still be 0.9% higher in Q3 than in Q2. In addition, the service sector expanded by 0.2% m/m and the construction sector grew by 2.2% m/m in July after growth of 1.8% q/q in Q2.

4.3 Consumer spending also continued to rise and may exceed the increase seen in Q2. While the 1.1% monthly rise in retail sales in July was almost entirely offset by a 0.9% fall in August, the unusually warm weather in August is likely to have had a part to play in this. The retail surveys also communicated a positive picture for household spending growth, with the Bank of England's Agents' Scores, BRC and CBI retail sales indicators demonstrating stronger growth in Q3, while growth in non-high street spending may have slowed, it remained robust. For example, although annual growth in new car registrations eased from the 24% rate seen in Q2, it was still a strong 15% in August.

4.4 The positive trend on the labour market continued, with the ILO unemployment rate falling to 7.7% in July from 7.8% in June. Employment rose by 80,000 in the three months to July, supported by an even bigger rise in full-time employment. This meant that the ratio of full-time to part-time workers continued to rise after it troughed last summer. The timelier claimant count measure of the unemployment rate also fell. Indeed, the cumulative fall in unemployment of 68,900 in July and August – the biggest two month fall since May and June 1997 – brought the claimant count unemployment rate down from 4.4% at the end of Q2 to 4.2% in August. Despite this, the headline (3 month average of the annual) rate of pay growth fell from 2.2% in June to just 1.1% in July. Excluding bonuses, earnings growth ticked up slightly to 1.1% y/y, but this remained well below the rate of CPI inflation at 2.7% in August, meaning real wages continued to fall.

4.5 Meanwhile, the cost of new credit has continued to fall, perhaps in response to the extension of the Bank of England's Funding for Lending Scheme (FLS) earlier this year. The quoted interest rate on a 5-year fixed mortgage at a 75% loan-to-value ratio was 3.34% in August, 7 basis points lower than in June and 77 basis points lower than when the FLS was introduced in July 2012.

4.6 Demands in the housing market continued to grow at a fast pace, supported by the FLS and the Government's Help to Buy scheme, which provide equity loans to credit-constrained borrowers. The RICS housing market survey reported that new buyer enquiries hit their highest level on record in August. Mortgage approvals for new house purchase rose to their highest level since February 2008 in August. Consequently, house prices continued to rise, with the Halifax and Nationwide measures recording

6.2% and 3.5% y/y rises in August, respectively. ONS data, though, shows that in real terms only London experienced year-on-year price rises in July. All other regions saw modest falls.

4.7 The economic recovery showed positive signs of feeding through to the public finances. Although the government registered a surprise deficit in July (a month that normally delivers a surplus), in August net borrowing was 'just' £13.2bn, compared to £14.4bn in August 2012.

4.8 The new Governor of the Bank of England, Mark Carney, took office in July. Alongside the August Quarterly Inflation Report, the Bank introduced its new policy of forward guidance in which the Monetary Policy Committee (MPC) pledged not to raise official interest rates, or reduce the size of the asset purchase facility, until the ILO unemployment rate falls to 7%. At this point, the MPC would discuss whether or not to alter official policy. This guidance was subject to three 'knockouts' which, if breached, would invalidate the guidance. These are that the MPC forecasts inflation at or above 2.5% in 18-24 months' time, inflation expectations are no longer sufficiently well anchored or financial stability is threatened by the stance of monetary policy. On the MPC's current forecasts, the unemployment rate is most likely to reach 7% in late 2016.

4.9 However, financial markets continued to price in increases in Bank Rate by mid-2015, with overnight index swap rates and gilt yields rising after the announcement of forward guidance. Members of the MPC subsequently appeared at the Treasury Select Committee and three gave further speeches to clarify the guidance, but there was little market impact. However, the Bank of England's surveys suggest the message may have got through to the public as the balance of people expecting interest rates to rise over the next 12 months fell from 29% in May to 24% in August.

4.10 Meanwhile, CPI inflation fell from a 2013 peak of 2.9% in June to 2.7% in August. The fall was primarily the result of a drop in the contribution from petrol prices and a reduction in core inflation from 2.3% in June to 2% in August. CPI inflation looks likely to have edged down again in September, perhaps to about 2.5%, reflecting a further fading of both energy prices and core inflation.

4.11 The main news in financial markets was that the Federal Reserve unexpectedly decided not to taper its asset purchases in September. In announcing its decision to maintain monthly purchases at $85bn, the Fed explained that it wanted to *"await more evidence that [the economic recovery] will be sustained before adjusting the pace of its purchases."* This came despite previous hints of tapering from the Fed and the fall in the unemployment rate in both July and August. It currently stands at 7.3%.

4.12 Across the quarter as a whole, advanced economy bond markets sold off, suggesting the rise in UK gilt yields was not solely down to markets' scepticism about domestic forward guidance. Gilt yields tracked US Treasury yields up, with ten-year gilts rising by around 60 basis points to reach 3% in early September for the first time since mid-2011. After the Fed's decision not to taper, gilt yields fell back, although not enough to offset the previous rise. Ten-year gilts finished the quarter at 2.7%. Equity markets stayed relatively flat over the quarter. While the FTSE 100 rose from 6470 to 6620 over the first few weeks of June, the index closed the quarter at 6462.

4.13 Meanwhile, Eurozone business surveys suggested that the economy continued to expand in Q3, albeit at a moderate pace. There was also a general election in Germany in which the incumbent Chancellor, Angela Merkel, performed better than expected by winning 41.5% of the vote. She is now likely to form a coalition, but it remains to be seen what form this will take.

<u>Economic Forecast</u>

4.14 The Council's treasury advisor, Capita Asset Services (Sector), has provided the following forecast for interest rates; Capital Economics Bank Rate forecast has been provided for comparison:

Bank Rate	Dec 13 %	Mar 14 %	Jun 14 %	Sept 14 %	Dec 14 %	Mar 15 %	Jun 15 %	Sept 15 %
Capita (Sector)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Capital Economics	0.50	0.50	0.50	0.50	0.50	Not Available	Not Available	Not Available
10yr PWLB rate	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
25yr PWLB rate	4.40	4.40	4.40	4.50	4.50	4.60	4.70	4.80
50yr PWLB rate	4.40	4.40	4.40	4.50	4.60	4.70	4.80	4.90

5. Treasury Management Strategy Statement

Annual Investment Strategy

5.1 As outlined above the Treasury Management Strategy for 2013/14 was approved by Council on the 26 February 2013. The Council's Annual Investment Strategy outlines the Council's investment priorities as follows (in order of priority).

- Security of Capital
- Liquidity
- Yield

5.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.

5.3 The Council manages its investments in-house and invests with institutions on the Council's approved lending list. In response to the global financial uncertainties, the Council continues to operate to a restricted lending list and a summary of the institutions to which the Council can lend to is outlined below:

1. The UK Government directly (Debt Management Office)
2. The UK Government (Treasury Bill via King & Shaxson)
3. Lloyds and RBS (because of the UK government's stake in these institutions)
4. The Council's banker (NatWest)
5. HSBC
6. Standard Chartered Bank
7. Barclays Bank
8. Nationwide Building Society
9. Local Authorities

5.4 In the current economic climate the Council only invests with highly credible and credit rated financial institutions using Capita Asset Services' (The Council's

Treasury Advisor) suggested creditworthiness matrices, including Sovereign and Credit Default Swap (CDS) overlay information. Confidential Appendix 2 sets out the Council's current lending list and limits. Council officers use additional intelligence gathered from the financial press to determine who to invest with.

Overall Treasury Cash Flow Position as at 30 September 2013

5.5 The Council's temporary borrowing and lending activity (that is 364 days or less) over the period is set out below.

Description	Borrowing £m	Lending £m	Net Position £m
Outstanding 30 June 2013	-	(296.59)	(296.59)
Raised/ (lent) during period	3.00	(2,098.08)	(2,095.08)
Repayments during period	(3.00)	2,137.28	2,134.28
Outstanding 30 Sept 2013	**-**	**(257.39)**	**(257.39)**

5.6 Over the reporting period to 30 September 2013, the Council's cashflows were maintained through lending activities on the wholesale money market and the net position outstanding at 30 September 2013 was a temporary lending balance of £257.39m.

5.7 £3m of short term borrowing was required (for less than one week) over the reporting period to meet cash flow needs.

5.8 Investments held at 30 September 2013 are outlined below:

Counterparty Name	Total Investment as at 30/09/13 (£m)	Total Investment as at 31/06/13 (£m)
Local Authorities	(69.500)	(101.500)
Debt Management Office	(3.900)	(8.100)
Glitnir Bank HF	(0.407)	(0.407)
HSBC	(30.000)	(30.000)
Standard Chartered Bank	(30.000)	(10.000)
Lloyds TSB Bank Call Account	(30.000)	(30.000)
Natwest SIBA	(30.000)	(30.000)
Royal Bank of Scotland	(10.000)	(10.000)
Barclays	(20.000)	(20.000)
Treasury Bills	(12.983)	(35.984)
Nationwide Building Society	(20.000)	(20.000)
Future Ealing Ltd*	(0.600)	(0.600)
Total Investment	**(257,390)**	**(296,591)**

**Ealing's Local Education Partnership, a joint-venture company formed by the Council and Balfour Beatty Education to deliver Ealing's Building Schools for the Future programme.*

5.9 Within the above table Members will note that the Council continues to place investments with a number of local authorities and these are considered to be of high credit quality and are therefore on the Council approved list of counterparties.

In the DCLG's own Investment Guidance issued to Councils, Local Authority deposits are deemed to offer "high security and high liquidity". The Council has a number of investments placed across a number of Councils and an individual total investment limit of £10m for any one Council. Examples include seven separate investments placed with City Councils and Unitary Councils totaling £39m, a single investment of £10m placed with another London Borough and six separate investments totaling £20.5m with District Councils.

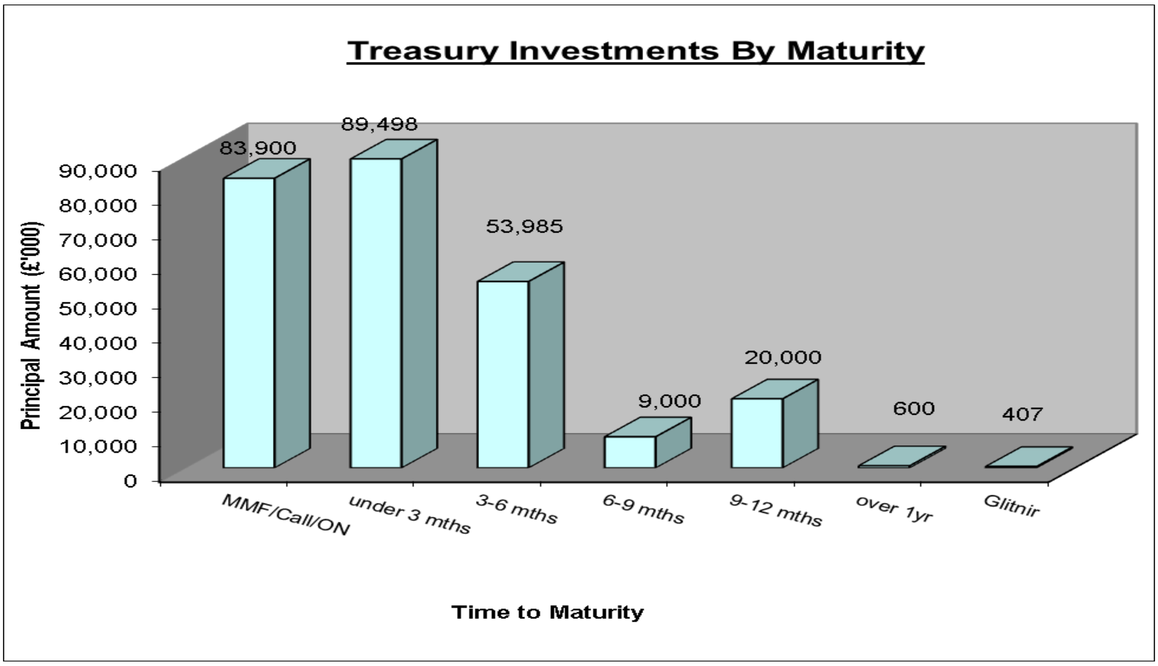
5.10 Investment activity during the quarter conformed to the approved strategy, and the Council did not experience any liquidity difficulties.

Icelandic Investment update

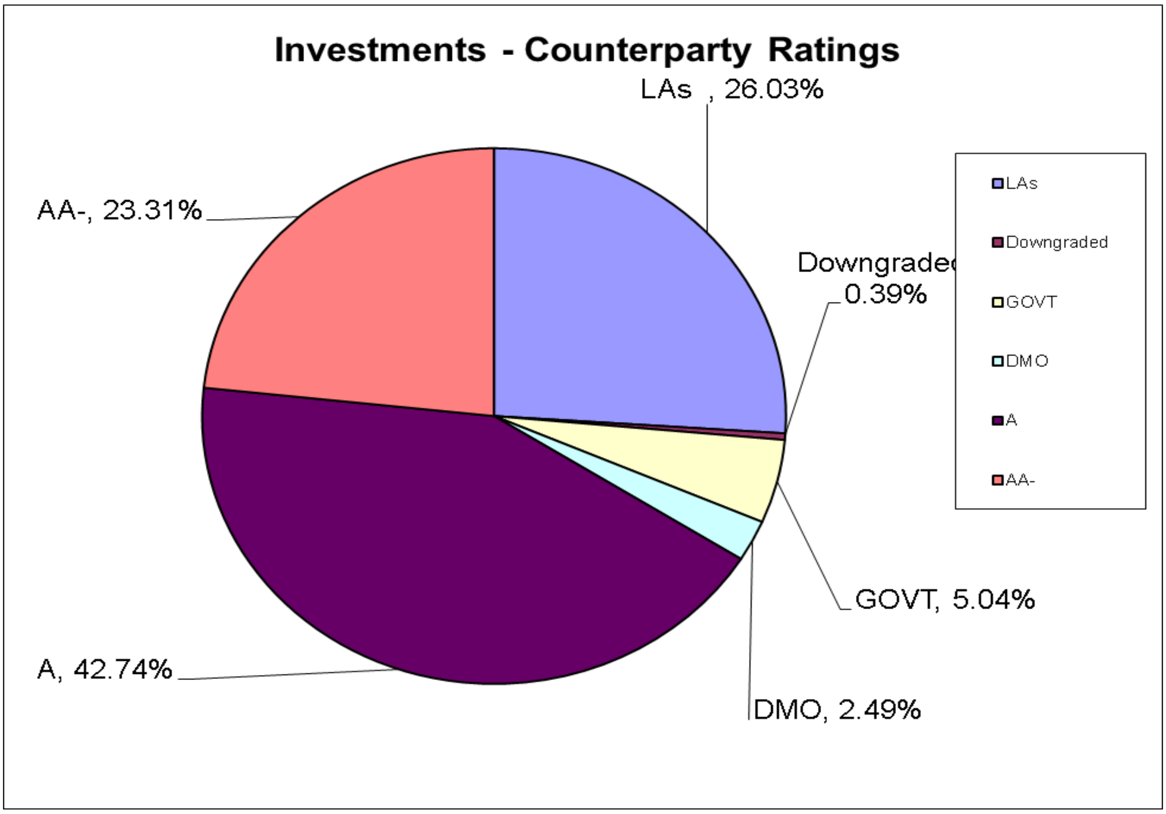
5.11 Balance position remains the same as reported to Members in 2012/13 outturn report, the balance of £0.407m at the end of 2012/13, remains in an escrow account yielding interest at the rate of 4.2%, however, the funds could be subject to currency losses from foreign exchange fluctuations.

5.12 The Icelandic Winding-up Board supplied a statement showing the account balance as at 31 March 2012/13, which shows a 20% deduction of withholding tax on the interest accrued in 2012/13. Council officers are working together with the Local Government Association (LGA) to seek to recover the withholding tax from the Icelandic government. LGA charge is a flat fee of £50 per authority plus a contingency fee of 1% of the value of tax reclaimed The process for reclaim is long and convoluted with little guarantee of recovery.

<u>Investment Maturity Profile at 30 September 2013</u>



<u>Investments by Counterparty Rating at 30 September 2013</u>



**Downgraded includes Glitnir of 0.16% and Future Ealing of 0.23%*
AA, A – Fitch credit rating.

Performance vs Benchmark

5.13 Council investment returns outperformed the benchmark (7 day LIBID rate) during the reporting period. The table below outlines this performance.

Month	Council Performance %	Benchmark Rate (7day LIBID rate) %	Over/(Under) Performance %
April 2013	0.539	0.366	0.173
May 2013	0.527	0.362	0.165
June 2013	0.527	0.361	0.166
July 2013	0.517	0.362	0.155
August 2013	0.536	0.360	0.176
September 2013	0.571	0.359	0.212
Average	0.536	0.362	0.174

5.14 The Council maintained an average internally managed investment balance of £296.28m over the quarter and had an actual investment balance of £257.39m as at 30 September 2013. The internally managed fund earned an average return of 0.536%; the comparable performance indicator is the average 7-day LIBID rate, which returned an average of 0.362%. The Council's budgeted investment return to quarter 2 if income was accrued evenly over the full year is £0.75m; this was marginally exceeded by the actual accrued interest of £0.795m.

6 Long Term Borrowing

6.1 The Council's Treasury management Strategy Report approved in February 2013, outlined the Council's long term borrowing strategy for the year.

HRA Self Financing
The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

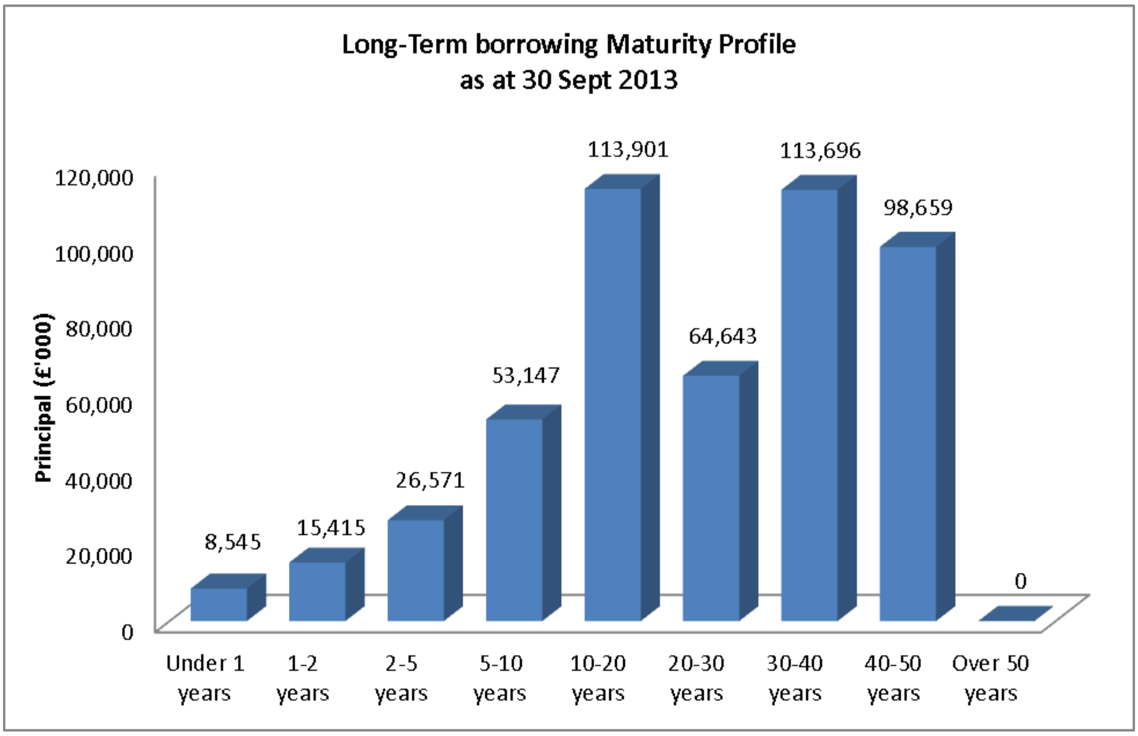
The Council continues to operate a dual Treasury Management strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt. Actual PWLB maturity loan interest rates over the reporting period were as follows

Period	RANGE		RATE
	Highest %	Lowest %	30 September 2013 %
5 year maturity	2.8	2.15	2.5
10 year maturity	3.99	3.37	3.66
50 year maturity	4.71	4.47	4.48

6.2 The Council's actual borrowing at the end of the quarter of £494.75m was within the anticipated year end Capital Financing Requirement (CFR) of £549m. No long term borrowing has been raised in the year in view of the level of investments held which has allowed the Council to internally borrow. The table below shows the split between General Fund and HRA borrowing.

Source	Debt as at 30/6/13 GF £m	Debt as at 30/6/13 HRA £m	Loans raised £m	Loans repaid £m	Debt as at 30/9/13 £m
PWLB :GF	286.80		-	-	286.80
:HRA		119.78	-	-	119.78
Market debt :GF	62.07		-	-	62.07
:HRA		25.93	-	-	25.93
Mortlake Crematorium	0.17	-	-	0.08	0.09
TOTAL	**349.04**	**145.71**	**-**	**0.08**	**494.67**
Memo Item:					
PFI Obligation*	139.19	-	-	0.95	138.24

The total principal that will be paid off in 2013/14 is £3.788m.
*Notional interest approximately £2.8m per quarter.
Note: The notional Interest charges on the above PFI debt do not impact on the bottom line funded by the Council Tax payer.



- *The above graph does not include the Mortlake loan of £0.09m, hence long term borrowing per the above graph is £494.58m.*

Debt Rescheduling

6.3 Movements in interest rates over time can produce opportunities in financial markets, which allow the Council to take advantage of replacing existing loans with new loans at lower rates. This is known as debt rescheduling. The Council can also repay existing loans early without necessarily replacing the loans. These activities will attract a discount or premium depending on the prevailing market conditions.

6.4 No debt rescheduling opportunities have arisen during the quarter as the cost of premiums to repay debt outweighs savings that could be made from the lower PWLB borrowing rates.

PWLB Certainty Rate

6.5 The government launched a discounted rate as part of the Budget in March 2012. Cheaper borrowing rates are available from the Public Works Loans Board (PWLB) for councils that can provide improved information on borrowing plans.

6.6 The “certainty rate” is 20 basis points (0.2%) below the PWLB’s normal rate. The aim is to afford increased spending capacity from Council’s who will benefit from savings accrued from interest payments.

6.7 Although there was no plan to borrow, the Council renewed its application to remain qualified to borrow at the discounted certainty rate.

7. Treasury Management Governance and Scrutiny

7.1 The Council continues to review and ensure that it embraces best practice in the risk management, control, monitoring and reporting of its treasury management processes.

7.2 The Council's Treasury Management Strategy is approved annually by Full Council and there is also at a minimum a mid-year report to Full Council. All reports to Full Council also go to Audit Committee which undertakes the scrutiny role for the Treasury Management function. As agreed at the Audit Committee Meeting on the 28 June 2012, Audit Committee will continue to receive quarterly Treasury Management Update Reports.

7.3 In addition, regular monitoring of Treasury Management activities is carried out by Management, the portfolio holder for Finance and the Treasury Risk and Investment Board (TRIB). TRIB is chaired by the Executive Director of Corporate Resources.

7.4 The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the Treasury Management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regards to delegation and reporting.

7.5 The Council currently adheres to the following reporting structure:

Report	**Full Council**	**Audit Committe e**
Annual Treasury Strategy (Feb)	✔	
Treasury Strategy updates or revisions required as and when required.	✔	✔
Annual Review of Treasury Management Strategy (March)		✔
Treasury Management Performance Q1		✔
Mid-Year Treasury Strategy update (Q2)	✔	✔
Treasury Management Performance Q3		✔
Treasury Outturn	✔	✔
Day to Day Treasury Oversight PORTFOLIO HOLDER FOR FINANCE ONGOING UPDATES		

8 Financial implications

Budget 2013/14 £m	**Forecast 2013/14 £m**	**Variance 2013/14 £m**
36.237	34.818	1.419

8.1 The Treasury Management mid-year position shows underspend of £1.419m to 30 September 2013.

9 Prudential Indicators

9.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

9.2 The benefit of the indicators will be derived from monitoring them over time rather than from the absolute value of each. The indicators are not intended to be used as comparators between councils. This half-yearly reporting process has been established and the indicators have been amended to highlight any deviations from expectations, subject to Council's approval. Appendix 1 outlines the estimated outturn for the Council's prudential indicators for the year ending 31 March 2014.

9.3 The figures show that the council has operated within all its indicators, for example, long term debt is within the authorised limit for external debt of £636.026m. External debt at 30 September totals £494.670m. Members are asked to note that this excludes PFI obligations totalling £138.24m which are held on Ealing's balance sheet as creditors unlike long term debt which is held as borrowings as required under accounting rules.

10 Legal

10.1 The lending of surplus funds and any borrowing must comply with the Local Government Act 2003 as amended by regulations from time to time by the Government. Local authorities by virtue of section 15 (1) (a) of the 2003 Act must have regard to any guidance on investments issued by the Secretary of State, the latest such guidance was issued in April 2010. Further, local authorities must have regard to other guidance specified by the Secretary of State under section 15 (1) (b) of the 2003 Act. Section 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifically mentions that local authorities shall also have regard to CIPFA's Code of Practice on Treasury Management in the Public Services, the latest version of which was published in 2011.

10.2 To comply with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 requires full Council to approve an Annual Statement of Minimum Revenue Provision.

11 Value For Money

11.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

11.2 For example, internally managed investment returns exceeded the LIBID benchmark up to September 2013/14 and PWLB borrowing is being monitored in order to secure favourable rates below the budgeted target rate of 5.00%. In addition, the treasury function operated within budget in Q2 of 2013/14.

12 Risk Management

12.1 There is no treasury management activity without risk. Risk management plays a fundamental role in treasury activities, due to the value of transactions involved. When placing investments with counterparties risk management and security of capital always remains the priority over returns.

12.2 The adoption of the CIPFA Code for Treasury Management in Public Services, the use of a Lending List and receiving advice from Capita Asset Services mitigates some of the risk associated with optimising performance returns. Security of capital remains the priority in the Council's investment with counterparties. The Treasury Team continue to be alert to concerns about the current Eurozone debt situation (e.g. Portugal, Ireland, Greece, Spain and Italy) and this is reflected in the Council's Lending List.

13 Community Safety

13.1 None

14 Links to Strategic Objectives

14.1 Proper and effective management of the Treasury Management function is an essential element of the financial administration process within the Council. Income generated from this source makes a significant contribution to the resources available to fund the Councils strategic objectives.

15 Equalities and Community Cohesion

15.1 None

16 Staffing Implications

16.1 The Director of Finance has delegated powers to make suitable arrangement for investment of Council's surplus funds, including amendment to the Council's lending list.

17 Any Other Implications

17.1 None

18 Consultation

18.1 See attached consultation

19 Timetable for implementation

19.1 Not Applicable

BACKGROUND INFORMATION
Lending and borrowing investments files kept on the 5th floor Perceval House. Cash fund manager reports.

Consultation

Name of consultee	Department	Date sent to consultee	Date response received	Comments appear in report para:
Maria G Christofi	Director of Finance	08-01-14	13-01-14	
Nigel Watson	Assistant Director of corporate Finance	08-01-14	08-01-14	
Matthew Bunyon	Head of Financial Planning & Investments	08-01-14		
Helen Harris	Head of Legal	08-01-14	09-01-14	
Catherine Taylor		08-01-14		
Cllr Murtagh	Chair of the Audit Committee	08-01-14		

Report History

Decision type: For Action/Information	Urgency item? No

Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
	06 January 2014	14 January 2014	13 January 2014

Report no.:	Report author and contact for queries:
	Bridget Uku, Treasury & Investments Manager, ext 5981

Glossary of terms used in the report

CFR - Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties - Organisations the Council lends money to e.g. Banks; Local Authorities and MMF.

CPI & RPI - Consumer Prices Index & Retail Prices Index
The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.

Credit Default Swap (CDS) - A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit watch - Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.

DMO - Bank of England's Debt Management Office.

Escrow Account – A money account held by an independent third party and disbursed upon fulfillment of certain contractual conditions.

Gilts - Bonds issued by the UK government. The holder is paid a fixed cash amount (coupon) every six months until maturity, at which point the final coupon is paid along with the principal.

IMF - The International Monetary Fund is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Impaired investment - An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.

LIBID - The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.

Market Loans - Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

MMF - Money Market Fund – a 'pool' of different types of investments managed by a fund manager, that invests in lightly liquid short term financial instruments with high credit rating.

MPC - Monetary Policy Committee- Committee designated by the Bank of England, whose main role is to regulate interest rates.

MRP - Minimum Revenue Provision – this is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

Premium - Cost of early repayment of loan to PWLB to compensate for any losses that they may incur.

Prudential Indicators - Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council's Capital Expenditure, Debt and Treasury Management.

PWLB - Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.

QE - Quantitative Easing. Usually, central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. Lower interest rates encourage people to spend, not save. But when short term interest rates can go no lower, a central bank can buy government bonds (including long-term bonds) or other financial assets (e.g. corporate bonds) in an effort to increase money supply and stimulate the economy. This is quantitative easing.

Treasury Bill – Short term debt instruments issued by the Government. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.