



**Report for: AUDIT COMMITTEE**

FOR INFORMATION

**Item Number: 1**

<b>Contains Private and Confidential Information</b>	<b>YES</b> (Appendix 3)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
<b>Title</b>	<b>Treasury Management Outturn 2016/17</b>	
<b>Responsible Officer</b>	Ian O'Donnell: Executive Director of Corporate Resources. Ross Brown : Director of Finance	
<b>Author(s)</b>	Bridget Uku, Group Manager, Treasury & Investments Tel: 020 8825 5981. E-mail: <a href="mailto:ukub@ealing.gov.uk">ukub@ealing.gov.uk</a>	
<b>Portfolio</b>	Finance, Performance & Customer Services - Cllr Yvonne Johnson	
<b>For Consideration By</b>	Full Council	
<b>Date to be Considered</b>	27 July 2017	
<b>Implementation Date if Not Called In</b>	N/A	
<b>Affected Wards</b>	N/A	
<b>Area Committees</b>	N/A	
<b>Keywords/Index</b>	Treasury, Borrowing, Lending, Investments, HRA Debt, Prudential Indicators.	

**Purpose of Report:**

This report outlines the council's borrowing and investment activities for the financial year ending 31 March 2017. 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 produce an annual review of activities. The report is being submitted to Full Council to enable Members to fulfil their scrutiny role of the treasury management function as per CIPFA's Treasury Management Code of Practice. In 2016/17, all treasury management activities were carried out in accordance with approved limits. The report also provides information on the economic conditions prevailing in the final quarter of 2016/17.

## **1. Recommendations**

Members are required to:

- 1.1 Note the Treasury Management activities and performance against targets for the 12 months to 31 March 2017.
- 1.2 Note the council's governance and reporting arrangements which is in line with CIPFA's best practice recommendations, as set out in paragraph 7.
- 1.3 Note the council's investments in other Local Authorities as at 31 March 2017 (set out in Appendix 1).
- 1.4 Note the Prudential indicators outturn for 2016/17 (set out in Appendix 2).
- 1.5 Note the council's current lending list (set out in confidential Appendix 3).
- 1.6 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.
- 1.7 Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the council.

## **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 the prevailing economic conditions and considers Treasury Management Performance measured against the 7 day LIBID rate.
- 2.2 Treasury management is defined as "the management of the council's investments and 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".

### Summary

- 2.3 The main points from this report are:
  - All treasury management activities were executed by authorised officers within the parameters agreed by the council.
  - All investments were made to counterparties on the council's approved lending list and within limit.
  - Long term borrowing of £40m was raised during the year to 31 March 2017.
  - Long term debt increased from £471.384.128m to £496.807m being the net effect maturing loans and some borrowing raised.
  - The council earned 0.503% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.200%.
  - The council currently holds no direct investments with overseas financial institutions, however overseas investments are indirectly held through the Council's investments in Money market Funds (MMFs).

- The HRA debt is managed separately from General Fund debt.

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

### **3. Treasury Management Strategy 2016/17**

3.1 The council's Treasury Management Strategy for 2016/17 was approved on the 23 February 2016 by Full council. The strategy comprehensively outlined how the treasury function would operate throughout the financial year 2016/17 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 complied with the strategy throughout the financial year 2016/17

#### Investment of Pension Fund Cash

3.3 Whilst the majority of the pension fund assets are placed with and invested by appointed Pension Fund managers, the council occasionally retains some Pension Fund cash in house. During the year 2016/17 it was agreed that following the monthly cash flow calculations excess pension fund cash will be transferred to the pension fund bank account held with the custodian from where investments will take place

3.4 However, as approved by the Pension Fund Panel at its meeting on the 9 March 2011 and in accordance with LGPS regulations, Pension Fund cash is held in house will be invested separately from the council's cash in fixed term deposit bank accounts or fixed term investments, this was the case throughout the financial year 2016/17. All Pension Fund transactions do however still flow through the council's bank account and monthly transfers were made as required between the council and the Pension Fund bank accounts held at the fund's custodian BNY Mellon.

3.5 The Pension Fund surplus cash where invested internally has been invested in accordance with the council's Treasury Management Strategy agreed by Full council on the 23 February 2016, under the delegated authority of 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 (S151 Officer). The Pension Fund Panel (PFP) is updated on

Pension Fund investment activity and the Portfolio holder for Finance is briefed regularly.

#### 4. Economic Background

- The following is a summary of key economic issues prevailing during the financial year 2016/17: -
- Two key political events influenced financial markets in 2016/17.
  1. UK Brexit EU Referendum
  2. The US elections
- expectations for interest rate increases in the UK moved from 2018 to 2019
- UK base rates were reduced on 4 August 2016 from 0.5% to 0.25% and warned against further cuts to support growth
- Quantitative easing was restarted by the MPC with £60bn of gilts and £10bn of corporate bonds and Term Funding Scheme, whereby potentially £100bn of cheap financing was made available to banks
- In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries.
- Though no further base rate cuts were required inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro.
- In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend.
- Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

#### USA.

- Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%

#### EU.

- The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken by the ECB has resulted in

economic growth improving significantly in the Eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

## 5. Treasury Management Strategy Statement

### Annual Investment Strategy

5.1 The council's Annual Investment Strategy, is an integral part of the approved Treasury Management Strategy 2016/17, it outlines the council's investment priorities as follows (in order of priority).

- Security of Capital
- Liquidity
- Yield

5.2 The council managed its investments in-house and invested with institutions on the council's approved lending list (Appendix 3). Following the global financial crises and persistent uncertainties in financial markets, the council remains relatively risk averse and operates a restricted lending list and a summary of the institutions to which the council invested with is outlined below:

1. The UK Government directly (Debt Management Office)
2. The UK Government (Treasury Bill via King & Shaxson)
3. Lloyds and RBS (UK government's has stake in these institutions)
4. The council's banker (Lloyds)
5. HSBC
6. AAA Money Market Funds
7. Barclays Bank
8. Nationwide Building Society
9. Local Authorities

### **Overall Treasury Cash Flow Position as at 31 March 2016**

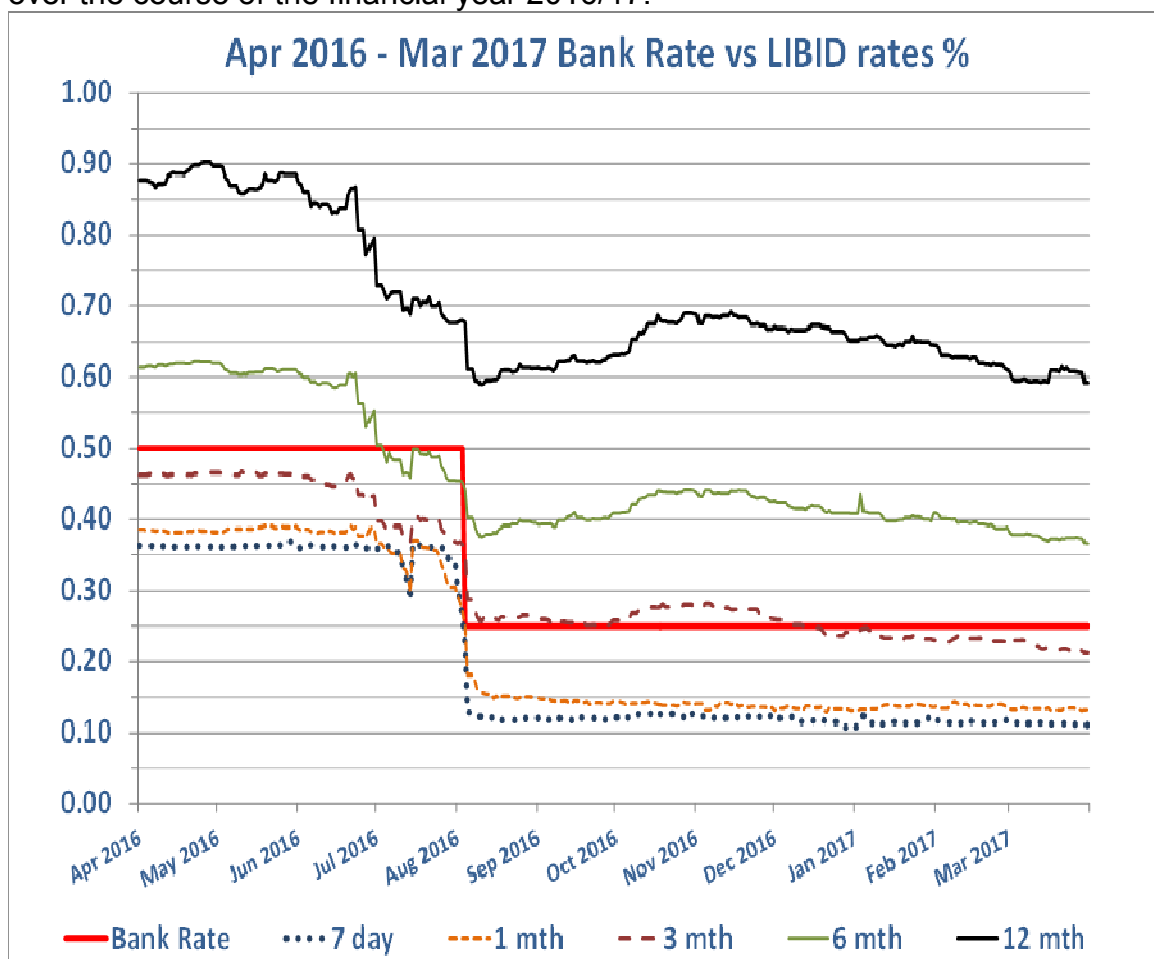
5.3 The council's temporary borrowing and lending activity (that is 364 days or less) during the financial year 2016/17 is set out below

<b>Description</b>	<b>Borrowing</b>	<b>Lending</b>	<b>Net Position</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Outstanding - 01 April 2016	<b>9.000</b>	<b>(191.732)</b>	<b>(182.732)</b>
Raised/ (lent) during period	313.200	(2,418.065)	(2,104.865)
Repayments during period	(300.200)	2,456.877	2,156.677
Outstanding - 31 March 2017	<b>22.000</b>	<b>(152.920)</b>	<b>(130.920)</b>

- 5.4 Over the 12 months to 31 March 2017, the council's cash flows were maintained through borrowing and lending activities on the wholesale money market and the net position outstanding at 31 March 2017 is temporary lending of £130.920m.
- 5.5 There was a short-term borrowing of £22.00m outstanding at 31 March 2017. The Council has an arrangement with West London West Authority (WLWA) and the Board of Mortlake Crematorium to invest funds on behalf of the organisations, the total of the funds under the arrangement as at 31<sup>st</sup> March 2017 was £15.768m, this figure is treated as other borrowing in the statement of accounts. This arrangement is on a rolling basis and their investments can be called with specified notice periods.

### Investment Rate 2016/17

- 5.6 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August 2016 before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August 2016 MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.
- 5.7 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2016/17.



## Investment Outturn

- 5.8 In view of the above low rates, Investment returns continued to be low throughout the financial year. The Bank of England is still keen to maintain low interest rates to stimulate the economy. The council's aim was to achieve optimum return on investments commensurate with the proper levels of security and liquidity.
- 5.9 The council managed its investments internally and invested with institutions on the council's approved lending list. Due to the ongoing volatile economic outlook, the council operated a restricted lending list throughout the year, mainly investing in the UK Government, other Local Authorities and a handful of financial institutions. The approved list of investment counterparties remains subject to ongoing review by the Treasury Risk and Investment Board which meets monthly.
- 5.10 The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

## Investments held by the council

- 5.11 The council maintained an average of £197.989m of internally managed funds and held an outstanding balance of £152.920m as at 31 March 2017. The internally managed funds earned an average rate of return of 0.503%. The comparable performance indicator is the average 7-day LIBID rate, which returned 0.200%.
- 5.12 The ongoing uncertainties in the economic environment during the year led TRIB to remain duty bound to continue to place investments in shorter term deposits and with high quality counterparties such as the DMO. However we did place some longer term investments with other local authorities. The outcome of such a policy is inevitably a continuous reduction in the investment income received by the council.
- 5.13 Investments held at 31 March 2017 are outlined below

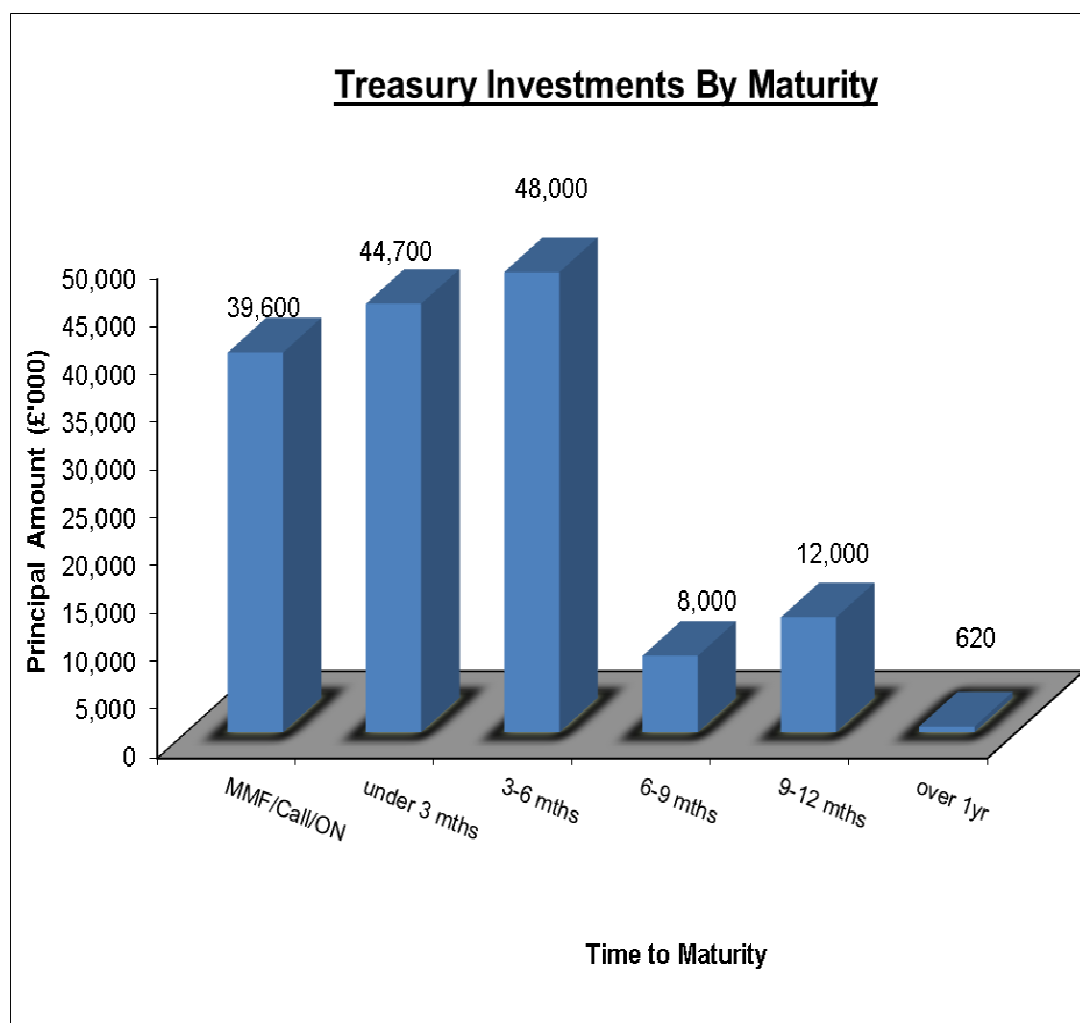
Counterparty Name	Total Investment as at 31/03/16 (£m)	Total Investment as at 31/03/17 (£m)
Local Authorities	(93.802)	(82.000)
Debt Management Office	-	(2.700)
HSBC	(30.000)	(30.000)
Standard Chartered Bank	-	-
Lloyds TSB Bank Call Account	(7.300)	(9.600)
National Westminster Bank	(15.000)	-
Royal Bank of Scotland	-	-
Barclays	(20.000)	(3.000)
Lloyds TSB Bank	(10.000)	(10.000)
Treasury Bills	-	-
Nationwide Building Society	(15.000)	(15.000)
Future Ealing Ltd	(0.600)	(0.600)
Ealing Community Resource Centre	(0.030)	(0.020)
<b>Total Investment</b>	<b>(191.732)</b>	<b>(152.920)</b>

- 5.14 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's approved list of counterparties.

In the DCLG's Investment Guidance issued to councils, Local Authority deposits are deemed to offer "high security and high liquidity". The council had 20 investments placed across a number of councils totaling £82.000m as at 31 March 2017, these are set out in Appendix 1.

5.15 As outlined above, average investment balance from 1 April 2016 to 31 March 2017 was £197.989m. The level of funds available remained in the main attributable to the council's reserve balances.

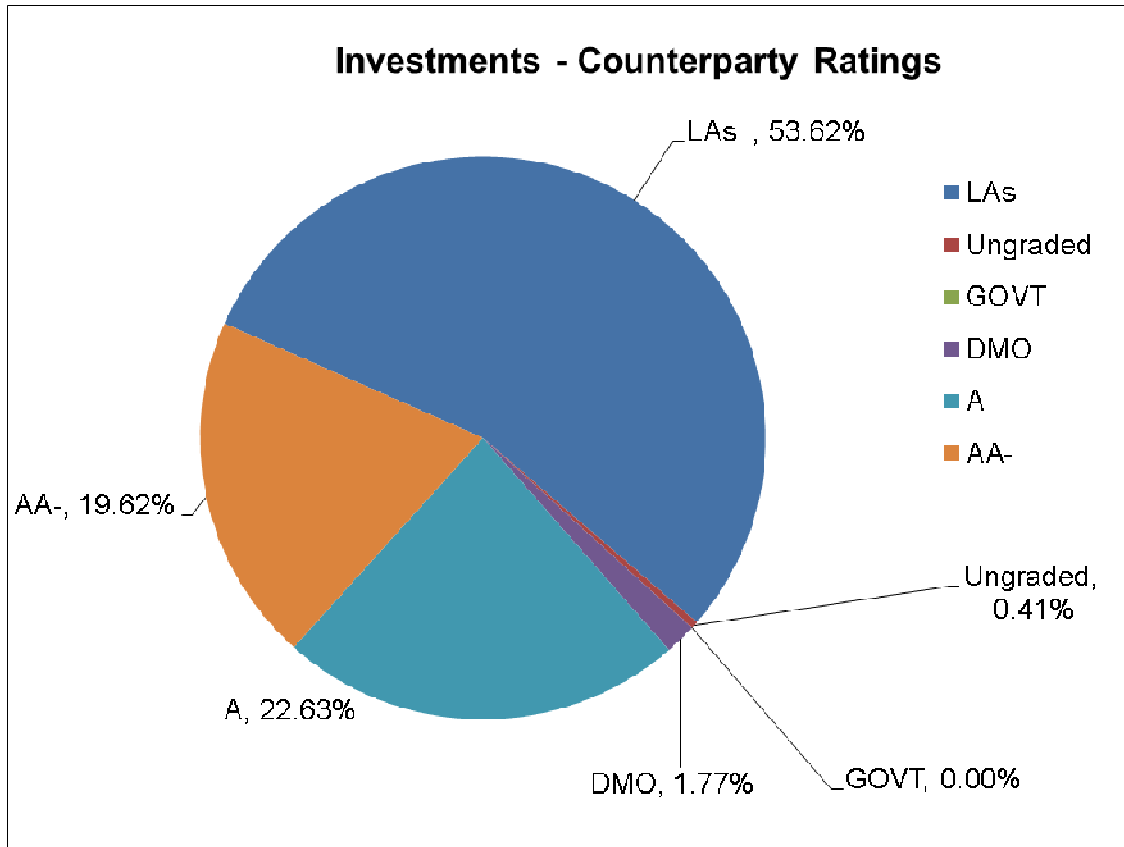
### Investment Maturity Profile at 31 March 2017



- The council currently has two investments that have a maturity period of over one year – Future Ealing and Ealing Community Resource Centre.



Investments by Counterparty Rating at 31 March 2017



\*Ungraded includes Future Ealing of 0.40% and Ealing Community of 0.01%  
AA, A – Fitch credit rating.

Performance vs Benchmark

5.16 The council investment returns outperformed the benchmark (7 day LIBID rate) during the financial year. The table below outlines this performance.

Month	Council Performance %	Benchmark Rate (7day LIBID rate) %	Outperformance %
April 2016	0.553	0.362	0.191
May 2016	0.574	0.364	0.210
June 2016	0.552	0.361	0.191
July 2016	0.486	0.352	0.134
August 2016	0.464	0.139	0.325
September 2016	0.448	0.119	0.329
October 2016	0.414	0.124	0.289
November 2016	0.422	0.121	0.300
December 2016	0.488	0.116	0.371
January 2017	0.482	0.115	0.367
February 2017	0.575	0.115	0.460
March 2017	0.583	0.113	0.470
<b>Average</b>	<b>0.503</b>	<b>0.200</b>	<b>0.303</b>

## Temporary Borrowing

- 5.17 Short term borrowing (less than 21 days) was raised from other Local Authorities during the year to 31 March 2017; the net position outstanding as at the end of the year was £22.00m as shown in paragraph 5.3 above. The average rate of interest paid on temporary borrowing to cover short-term cash flow requirements was 0.34%.

## 6 Long Term Borrowing Requirement and Debt

- 6.1 The council's Treasury Management Strategy Report approved in February 2016, outlined the council's long term borrowing strategy for the year. Over the course of the year to 31<sup>st</sup> March 2017, the council's cash flow requirements were financed through internal borrowing.

### HRA Self Financing

- 6.2 The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 6.3 The council operates a dual Treasury Management Strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt. Actual PWLB maturity loan interest rates in the financial year 2016/17 were as follows:

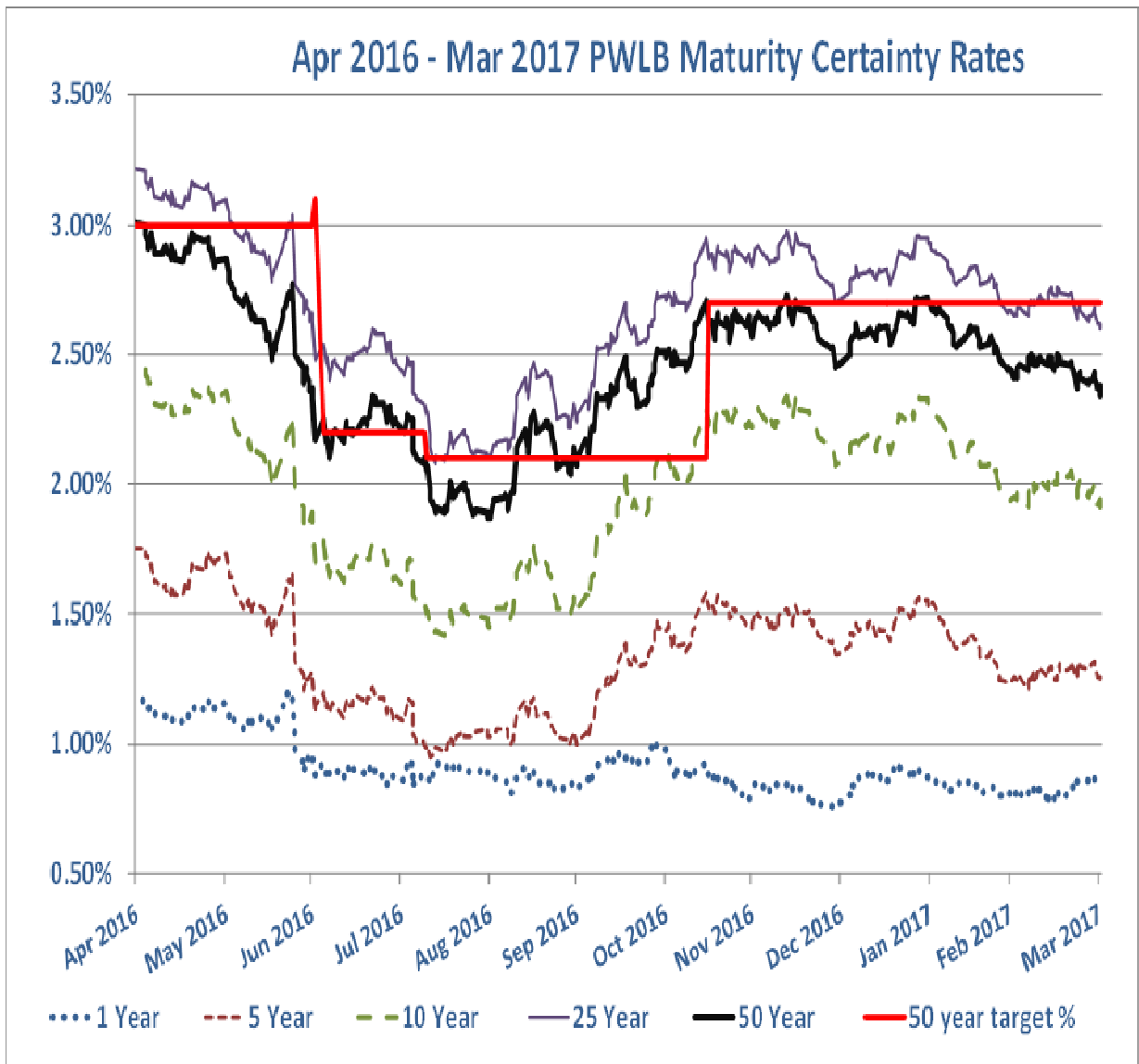
Period	RANGE		RATE
	Highest %	Lowest %	31 March 2017 %
5 year maturity	1.80	0.95	1.24
10 year maturity	2.51	1.42	1.60
50 year maturity	3.08	1.87	2.07

The table below shows the council's CFR at the end of financial year

Capital Financing Requirement	2015/16 Actual £m	2016/17 Actual £m
CFR – non housing	453.284	464.538
CFR – housing	140.590	148.341
OLTL - PFI	125.042	120.618
<b>Total CFR</b>	<b>718.916</b>	<b>733.497</b>

## Borrowing rates in 2016/17

- 6.4 Average long term borrowing rate was budgeted for at 5.00% average borrowing. The graph below shows movement in the PWLB maturity certainty rates during the year.



- 6.5 Gilt yields and consequently PWLB borrowing rates remained at lower than historical levels during the year 2016/17. The council raised £40m of PWLB borrowing during 2016/17 to take advantage of the historically low levels of borrowing rates; however, borrowing is still behind budget. Deferring borrowing has resulted in £116.073m of internal borrowing. However, officers continue to monitor the position and some borrowing has been earmarked for 2017/18.

- 6.6 Total long term borrowing stood at £496.807 (including Mortlake Crematorium Board) on the 31 March 2017. The following table shows the split between General Fund and HRA borrowing, and that overall debt increased by £25.423m from £471.384m at 31 March 2016.

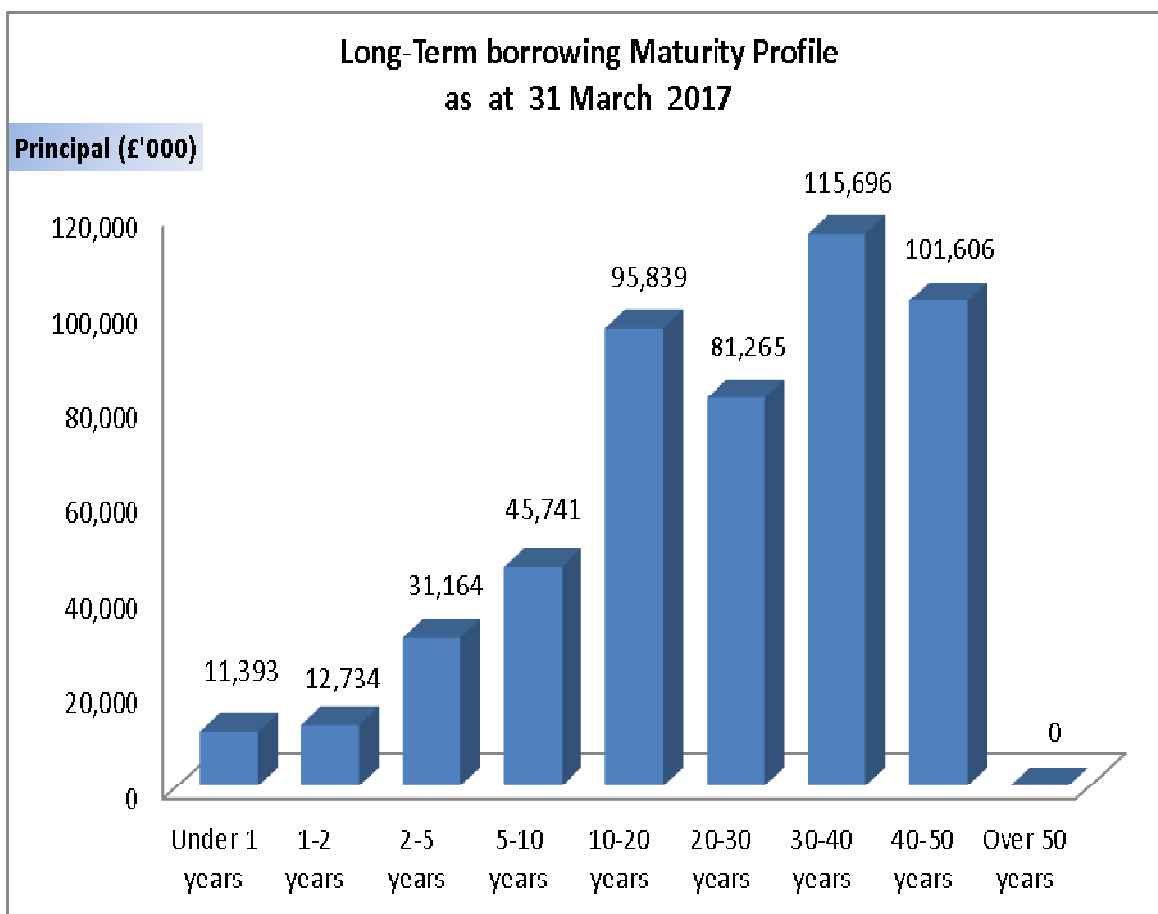
Source	Debt as at 31/03/16 £m	Loans raised £m	Loans repaid £m	Debt as at 31/03/17 £m
<b>General Fund</b>				
PWLB	269.642	40.000	(10.696)	290.916
Market Loans	62.016	-	-	62.016
*Mortlake Crematorium	0.768	0.600	-	1.368
<b>Total General Fund</b>	<b>332.426</b>	<b>40.600</b>	<b>(10.696)</b>	<b>362.330</b>
<b>HRA</b>				
PWLB	112.975	-	(4.481)	108.493
Market Loans	25.983	-	-	25.983
<b>Total HRA</b>	<b>138.958</b>	<b>-</b>	<b>(4.481)</b>	<b>134.476</b>
<b>Total Long Term Borrowing</b>	<b>471.384</b>	<b>40.600</b>	<b>(15.177)</b>	<b>496.806</b>
**Memo Item: Other Long Term Liabilities (OLTL)	131.493	-	(6.174)	125.319

Notes:

\*The £0.600m 'loan raised' figure relates to the arrangement with Mortlake Crematorium where monies are passed by Mortlake Crematorium Board for investment by the council on the Boards behalf

\*\*PFI schemes are shown on the balance sheet as long term creditors and are not classified under accounting rules as debt so are shown as a memo item here for completeness.

- 6.7 The council's actual borrowing at the end of the financial year of £496.807m was within the closing year end Capital Financing Requirement (CFR) of £612.879m. Long term borrowing of £40m was raised in the year to take advantage of the dip in PWLB interest rates. The Council actual borrowing was below the council's CFR.



- *The above graph does not include the Mortlake loan of £1.368m.*

### **Debt Rescheduling**

- 6.8 Movements in interest rates over time can produce dislocations, which can present opportunities for the council to replace 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.
- 6.9 No debt rescheduling opportunities have arisen during the year, as the cost of premium to repay debt outweighs savings that could be achieved from the lower PWLB borrowing rates.

### **PWLB Certainty Rate**

- 6.10 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.
- 6.11 The “certainty rate” is 20 basis points (0.2%) below the PWLB’s normal rate. The aim is to afford increased spending capacity from councils who will benefit from savings accrued from interest payments.
- 6.12 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 as 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 have continued to receive quarterly Treasury Management Update Reports. Hence, the council reported quarterly on treasury management activities.
- 7.3 In addition, regular monitoring of Treasury Management activities is carried out by senior management, the portfolio holder for Finance and the Treasury Risk and Investment Board (TRIB) which 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.

### Training

- 7.5 Members will receive refresher training on Treasury management at the Audit Committee meeting in November 2017. This is to ensure they maintain the relevant knowledge and skills required to fulfil their scrutiny role in the most effective manner.
- 7.6 The council has adopted and will continue to maintain the following reporting structure:

<b>Report</b>	<b>Full Council</b>	<b>Audit Committee</b>
Annual Treasury Management Strategy (Feb)	✓	
Treasury Management Strategy updates or revisions required as and when required.	✓	
Annual Review of Treasury Management Strategy (March)	✓	
Treasury Management Performance Q1		✓
Mid-Year Treasury Management Strategy update (Q2)	✓	✓
Treasury Management Performance Q3		✓
Treasury Management Outturn	✓	✓
Day to Day Treasury Oversight Portfolio Holder for Finance Ongoing Updates		

## **8 Financial implications**

- 8.1 The Treasury Management outturn position has continued the trend of recent years, with a lower Finance and Interest charges and reduced spending mainly attributable to deferred borrowing and some slippage on the capital programme. The current market conditions support this strategy however the borrowing position is kept under constant review and should conditions start to change then new borrowing will be considered. The net outturn position is that there is no variance from the budget.

## **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 Ealing's Treasury Management Prudential Indicators outturn position for the period 2016/17 is attached as appendix 2. This shows the council operated within approved limits. One example is that the council operated within its authorised limit for external debt.
- 9.3 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. A reporting process has been established, with a half-yearly report to Cabinet in which the indicators were amended to highlight any deviations from expectations.

## **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. Regulation 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 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146 requires a local authority to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.

## **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 for the year 2016/17 and PWLB borrowing was monitored throughout

the year, the budgeted target rate was 5.00%. In addition, the treasury function operated within budget in 2016/17.

## **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 remain 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 mitigate 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 council's strategic objectives.

## **15 Equalities and Community Cohesion**

- 15.1 None

## **16 Staffing /Workforce and Accommodation Implications**

- 16.1 None

## **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

<b>Name of consultee</b>	<b>Department</b>	<b>Date sent to consultee</b>	<b>Date response received</b>	<b>Comments appear in report para:</b>
Ian O'Donnell	Executive Director of Corporate Resources	18-07-17	18-07-17	
Ross Brown	Director of Finance (Deputy S151) Finance - Corporate Resources	27-06-17	17-07-17	Throughout
Maria Campagna	Head of Corporate Finance	27-06-17	17-07-17	Throughout
Paddy Quill	Legal	27-06-17	17-07-17	
Cllr Yvonne Johnson	Portfolio Holder for Finance, Performance & Customer Services	27-06-17		

## Report History

<b>Decision type: For Action/Information</b>	<b>Urgency item? No</b>
--	-------------------------

Authorised by Cabinet member:	Date report drafted: 08 June 2017	Report deadline: 18 July 2017	Date report sent: 18 July 2017
----------------------------------	---	----------------------------------	-----------------------------------

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.