



**Report for: AUDIT COMMITTEE**

FOR SCRUTINY/REVIEW

**Item Number:**

<b>Contains Private and Confidential Information</b>	<b>YES</b> (appendix 2)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
<b>Title</b>	Treasury Management Q3 Update 2013/14	
<b>Responsible Officer (s)</b>	Ian O'Donnell: Executive Director of Corporate Resources. Maria G. Christofi : Director of Finance	
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<b>Portfolio</b>	Finance and Performance - Cllr Yvonne Johnson	
<b>For Consideration By</b>	Audit Committee	
<b>Date to be Considered</b>	20 March 2014	
<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	

**Purpose of Report:**

This report provides an update on the Council's borrowing and investment activities during 2013/14 for the three quarters to 31 December 2013. This update ensures that the Council is delivering its Treasury Management service in a compliant and transparent manner, 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 Management Strategy. The report also provides information on the economic conditions prevailing in the third quarter of 2013/14.

## 1. Recommendations

It is recommended that Members:

- 1.1. Note the Treasury Management activities and performance against target for the three quarters to 31 December 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 investments in other Local Authorities as at 31 December 2013 (set out in Appendix 1).
- 1.4. Note the Council's current lending list (set out in confidential Appendix 2).
- 1.5. 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.
- 1.6. Note the position on Pension Fund investments, since Pension Fund cash is being invested separately from the Council.
- 1.7. 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 the benchmark 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 remit 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 still 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 financial year, 2013/14.
  - The Council earned a return of 0.550% on its lending, outperforming the actual rolling average 7 Day Libid rate of 0.348%.
  - 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 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 outlines 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 during the period to 31 December 2013.

#### Investment of Pension Fund Cash

- 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 or cash disinvested from existing managers to fund new mandates. From time to time balances are transferred to external Fund Managers to invest, but a small amount is usually retained internally to manage cash flows, or larger amounts to facilitate an asset reallocation strategy. Currently disinvestment from other managers to fund the new property mandate is creating volatile Pension Fund cash flows.
- 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 is 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 monthly transfers are made as required from the Council to the Pension Fund account and vice versa.
- 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 Pension 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 economic issues for the quarter ending 31 December which observed:

- 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 surprisingly approached the MPC's 7% forward guidance threshold;
- The MPC maintained its 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).

4.2 After growing at a healthy quarterly rate of 0.8% in Q3 of 2013, GDP growth came in at 0.7% for the fourth quarter ending the year with total growth of 2.7% for 2013 up on 2012.

4.3 The UK 2013 quarter 4 GDP growth was more balanced and less dependent on consumer spending, whilst household spending growth slowed, growth in sales off the high street may not have done so badly.

4.4 The UK unemployment rate has been falling more quickly than anticipated towards the Monetary Policy Committee's (MPC) 7% threshold for re-assessing the stance of monetary policy. However, Committee members have increasingly emphasised that the 7% unemployment rate is a threshold for reconsidering policy, rather than a trigger for raising rates. Indeed, the MPC have continued to maintain that interest rates will remain low for a while. The recent fall in inflation suggests that interest rates will probably remain on hold even if the unemployment rate falls quickly to the 7% threshold.

4.5 The housing market continued to recover in Q4, supported by the earlier implementation of the mortgage guarantee element of the Government's Help to Buy Scheme.

4.6 The Chancellor announced a fiscally neutral package of policies in the Autumn statement, with measures to ease the cost of households' utility bills offset by further spending cuts. Mr Osborne is expected to meet his primary fiscal mandate to balance the cyclically adjusted current budget in five years a year early.

4.7 From a global perspective, the significant economic news story was the Federal Reserve's decision at its December meeting to begin slowing down its asset purchases or quantitative easing. This saw the first tapering of £10bn beginning in January 2014. The decision was taken in light of the relative strength of the US labour market, which on average added over 200,000 jobs per month in the four months up to November.

4.8 Markets did not appear surprised by the Fed's move and equities continued to perform well domestically and overseas as economic prospects improved. The FTSE 100 was up by 4.4% to 6749, while the S&P 500 rose by almost 10%.

4.9 Activity indicators in the Eurozone point towards continued weak, though positive, economic growth in the fourth quarter of 2013 and disinflationary pressures remain. Although CPI inflation rose from 0.7% to 0.9% in November, it remains well below the ECB's target of below but close to 2%. This is despite the ECB cutting its main refinancing rate by 25 basis points to 0.25% in November.

#### Economic Forecast as at 20 Feb 2014

4.10 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:

<b>Bank Rate</b>	<b>Mar 14</b>	<b>Jun 14</b>	<b>Sept 14</b>	<b>Dec 14</b>	<b>Mar 15</b>	<b>Jun 15</b>	<b>Sept 15</b>	<b>Dec 15</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Capita (Sector)</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
<b>Capital Econ.</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
<b>10yr PWLB rate</b>	3.70	3.70	3.80	3.80	3.90	3.90	4.00	4.10
<b>25yr PWLB rate</b>	4.40	4.40	4.50	4.60	4.70	4.70	4.80	4.90
<b>50yr PWLB rate</b>	4.40	4.50	4.50	4.60	4.70	4.80	4.90	5.00

## **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 2013/14, it 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 (appendix 2). 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 31 December 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 September 2013	-	(257.39)	(257.39)
Raised/ (lent) during period	-	(1,579.67)	(1,579.67)
Repayments during period	-	1,606.55	1,606.55
Outstanding 31 December 2013	-	<b>(230.51)</b>	<b>(230.51)</b>

5.6 Over the reporting period to 31 December 2013, the Council's cash flows were maintained through lending activities on the wholesale money market and the net position outstanding at 31 December 2013 was a temporary lending balance of £230.51m.

5.7 There was no short term borrowing required during the reporting period.

5.8 Investments held at 31 December 2013 are outlined below:

Counterparty Name	Total investment as at 31/12/13 (£m)	Total Investment as at 30/09/13 (£m)
Local Authorities	(78.000)	(69.500)
Debt Management Office	(13.000)	(3.900)
Glitnir Bank HF	(0.407)	(0.407)
HSBC	(30.000)	(30.000)
Standard Chartered Bank	(20.000)	(30.000)
Lloyds TSB Bank Call Account	(30.000)	(30.000)
Natwest SIBA	(23.500)	(30.000)
Royal Bank of Scotland	(10.000)	(10.000)
Barclays	(20.000)	(20.000)
Treasury Bills	-	(12.983)
Nationwide Building Society	(5.000)	(20.000)
Future Ealing Ltd*	(0.600)	(0.600)
<b>Total Investment</b>	<b>(230.507)</b>	<b>(257.390)</b>

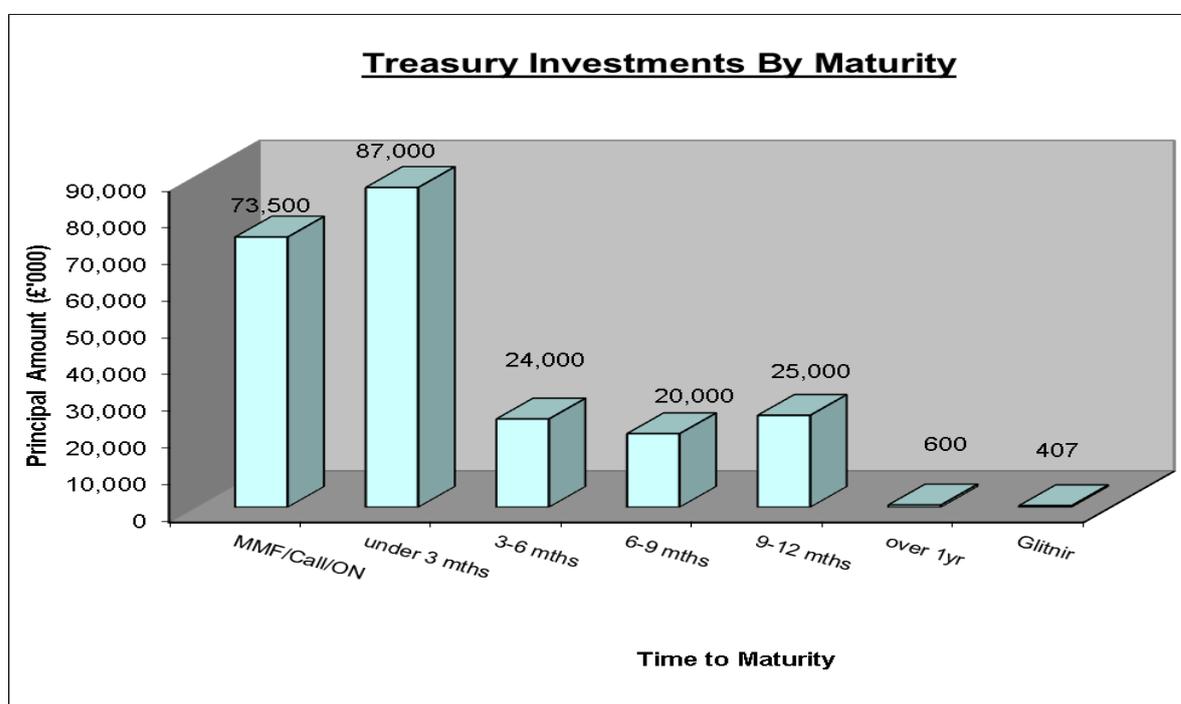
*\*Ealing’s Local Education Partnership, a joint-venture company formed by the Council and Balfour Beatty Education to deliver Ealing’s Building Schools for the Future programme.*

- 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’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 has 16 investments placed across a number of councils totaling £78m as at 31 December 2013, these are set out in Appendix 1.
- 5.10 Investment activity during the quarter conformed to the approved strategy, and the Council did not experience any liquidity difficulties.

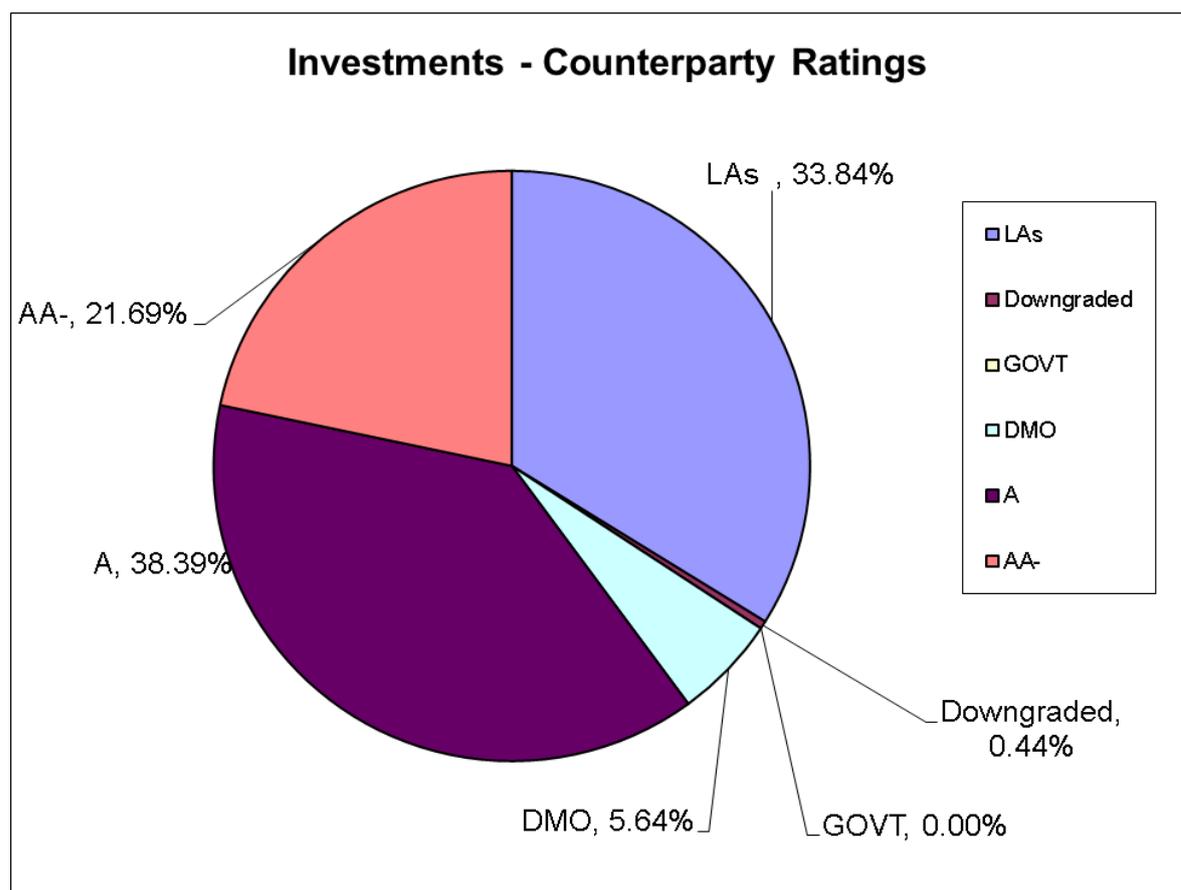
**Icelandic Investment update**

- 5.1 The 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 and the up-to-date position is that there has been a small reduction in the value of investment when converted to pound sterling of £2,302. This should be seen in the context that after allowing for interest earned, the value of the investment balance has now risen to £0.418m.
- 5.2 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 and is currently in progress.

Investment Maturity Profile at 31 December 2013



## Investments by Counterparty Rating at 31 December 2013



*\*Downgraded includes Glitnir of 0.18% and Future Ealing of 0.26%  
AA, A – Fitch credit rating.*

### Performance vs Benchmark

- 5.3 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
October 2013	0.570	0.354	0.216
November 2013	0.562	0.351	0.211
December 2013	0.602	0.348	0.253
<b>Average</b>	<b>0.550</b>	<b>0.358</b>	<b>0.192</b>

- 5.4 The Council maintained an average internally managed investment balance of £285.13m and held an actual investment balance of £230.51m as at 31 December 2013. The internally managed fund earned an average return of 0.550%; the comparable performance indicator is the average 7-day LIBID rate, which returned an average of 0.358%. The Council's budgeted investment return to Q3 if income were profiled evenly over the full year is £1.125m; this was marginally exceeded by the actual accrued interest of £1.178m.

## 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

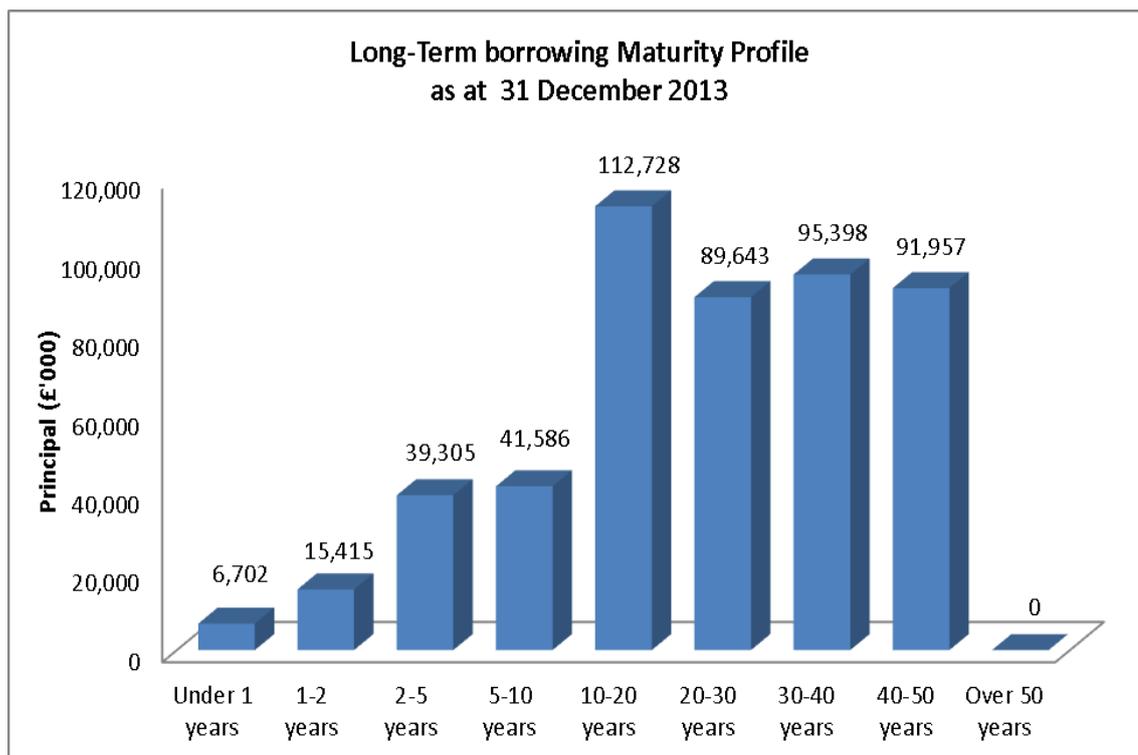
Period	RANGE		RATE
	Highest %	Lowest %	31 December 2013 %
5 year maturity	2.98	2.43	2.96
10 year maturity	4.1	3.55	4.08
50 year maturity	4.63	4.38	4.59

- 6.2 The Council's actual borrowing at the end of the quarter of £492.83m 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 30/09/13 £m	Loans raised £m	Loans repaid £m	Debt as at 31/12/13 £m
PWLB :GF	286.527	-	1.299	285.228
:HRA	120.049	-	0.544	119.505
Market debt :GF	62.016	-	-	62.016
:HRA	25.983	-	-	25.983
Mortlake Crematorium: GF	0.093	-	-	0.093
<b>TOTAL: GF</b>	<b>348.636</b>	<b>-</b>	<b>1.299</b>	<b>347.337</b>
<b>TOTAL: HRA</b>	<b>146.032</b>	<b>-</b>	<b>0.544</b>	<b>145.488</b>
Memo Item:				
PFI Obligation*	138.24	-	-	138.24

\*The total principal that will be paid off in 2013/14 is £3.788m. Notional interest approximately £2.8m per quarter.

The notional Interest charges on the above PFI debt do not impact on the bottom line funded by the council taxpayer.



- The above graph does not include the Mortlake loan of £0.09m, hence long term borrowing per the above graph is £492.73m.

### 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 councils 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 senior 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 Committee
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

<b>Budget 2013/14</b>	<b>Forecast 2013/14</b>	<b>Variance 2013/14</b>
<b>£m</b>	<b>£m</b>	<b>£m</b>
36.237	36.237	-

8.1 The Treasury Management third quarter budget forecast shows a balanced budget position.

8.2 As set out in this report investment returns are forecast to exceed the budget and borrowing costs are forecast to be lower than the budget. The resulting underspend is to be used to fund a one off cash injection of £3.2m into the pension fund in order to preserve employer contribution rates within the budget, as set out in the budget report to Full Council on 25 February 2014. If there is any further underspend this will potentially be transferred to reserves such as the Business Risk and Treasury Risk reserves.

## **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. 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. 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 December 2013 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 Q3 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 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 Implications**

- 16.1 The Director of Finance has delegated powers to make suitable arrangements 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	03-03-14	07-03-14	
Nigel Watson	Assistant Director of corporate Finance	03-03-14		
Matthew Bunyon	Head of Financial Planning & Investments	03-03-14	06-03-14	Throughout
Helen Harris	Head of Legal	03-03-14		
Catherine Taylor		03-03-14		
Cllr Murtagh	Chair of the Audit Committee	03-03-14		

### Report History

<b>Decision type: For Action/Information</b>	<b>Urgency item? No</b>
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Authorised by Cabinet member:	Date report drafted: 26 February 2014	Report deadline: 11 March 2014	Date report sent: 10 March 2014
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Report no.:	Report author and contact for queries: Bridget Uku, Treasury & Investments Manager, ext 5981
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## **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.