Report for: AUDIT COMMITTEE FOR SCRUTINY/REVIEW
Item Number: 08

Contains Private and Confidential Information	**YES** (Appendix 3)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
Title	Treasury Management Outturn 2014/15	
Responsible Officer	Ian O'Donnell: Executive Director of Corporate Resources. Maria G. Christofi : Director of Finance	
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Portfolio	Finance, Performance & Customer Services - Cllr Yvonne Johnson	
For Consideration By	Audit Committee	
Date to be Considered	25 June 2015	
Implementation Date if Not Called In	N/A	
Affected Wards	N/A	
Area Committees	N/A	
Keywords/Index	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 2015. 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 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. In 2014/15, 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 2014/15.

1. Recommendations

Members are required to:

1.1 Note the Treasury Management activities and performance against targets for the 12 months to 31 March 2015.

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 2015 (set out in Appendix 1).

1.4 Note the Prudential indicators outturn for 2014/15 (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.

1.8 Note (as previously reported) that through participation in an Icelandic Central Bank auction the council repatriated the remainder of the settlement received in respect of the impaired Glitnir investment that was retained in Iceland due to capital controls.

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".

<u>Summary</u>

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.
- The council has now repatriated the final funds that were kept in an Icelandic escrow account due to Iceland's capital controls. This council participated in an Icelandic central bank auction and received the final settlement of £0.308m; this was reported at the last audit committee meeting.
- There was no long-term borrowing raised during the year to 31 March 2015.

- Long term debt reduced from £492.950m to £484.128m as a result of the maturity of loans
- The council earned 0.596% on short term lending, outperforming the actual rolling average 7 Day LIBID rate of 0.345%.
- The council currently holds no investments with overseas financial institutions.
- 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 2014/15

3.1 The council's Treasury Management Strategy for 2014/15 was approved on the 25 February 2014 by Full council. The strategy comprehensively outlined how the treasury function would operate throughout the financial year 2014/15 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 2014/15

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

3.3 Whilst the majority of the pension fund assets are placed with and invested by appointed Pension Fund managers, the council usually retains some Pension Fund cash in house. This small, in relative terms, cash balance is usually retained internally to manage cash flows, however sometimes larger amounts are held to facilitate an asset reallocation strategy. Over the course of the year officers have been disinvesting from existing portfolios to fund the new property mandate and this has resulted in increased cash flow fluctuations.

3.4 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 and/or 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 2014/15. 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.

3.5 The Pension Fund surplus cash has been invested in accordance with the council's Treasury Management Strategy agreed by Full council on the 25 February 2014, 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. The Pension Fund Panel (PFP) is updated on Pension Fund investment activity and the Portfolio holder for Finance is briefed regularly.

4. Economic Background

4.1 The following is a summary of key economic issues prevailing during the financial year 2014/15: -

- At the beginning of 2014/15 markets were anticipating the first increase in Bank Rate to occur in quarter 1 2015 because the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth prospects were still heavily dependent on buoyant consumer demand.

- During the second half of 2014 oil prices halved and the collapse of the peg between the Swiss franc and the Euro led to panic in financial markets. There were concerns that the European Central Bank (ECB) would not take timely and decisive action to reduce the threat of deflation and recession in the Eurozone. Markets were particularly volatile for a week in mid-October. By the end of 2014, it became apparent that inflation in the UK was going to head towards zero and possibly even turn negative in 2015. The consensus was therefore that the MPC would find it difficult to start to raise Bank Rate while inflation expectations were so low. Hence expectations for first rate increase have been put back to around quarter 3 of 2016.

- Gilt yields were trending down for much of the last eight months of 2014/15 but were then became volatile due to increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. Although expectations are that the direct effects of this would be manageable by the EU and ECB, it is very hard to quantify exactly what the potential knock on effects would be on other countries in the Eurozone if a country leaving the EZ had occured. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing EZ government and other debt in March.

- Continuing growth in the US increased confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. It is likely that the UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

- The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year and continuing throughout 2014/15.

- The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.

- The EU sovereign debt crisis had subsided since 2012 until the Greek election in January 2015 sparked a resurgence of concerns. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.

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 2014/15, 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, 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 (because of the UK government's stake in these institutions)
4. The council's banker (NatWest)
5. HSBC
6. Standard Chartered Bank (Certificate of Deposit via King & Shaxson)
7. Barclays Bank
8. Nationwide Building Society
9. Local Authorities

Overall Treasury Cash Flow Position as at 31 March 2015

5.3 The council's temporary borrowing and lending activity (that is 364 days or less) during the financial year 2014/15 is set out below

Description	Borrowing £m	Lending £m	Net Position £m
Outstanding 01 April 2014	-	(219.289)	(219.289)
Raised/ (lent) during period	-	(9,851.390)	(9,851.390)
Repayments during period	-	9,839.037	9,839.037
Outstanding 31 March 2015	-	**(231.642)**	**(231.642)**

**DMO investments were high as the council's daily cash balances were placed here*

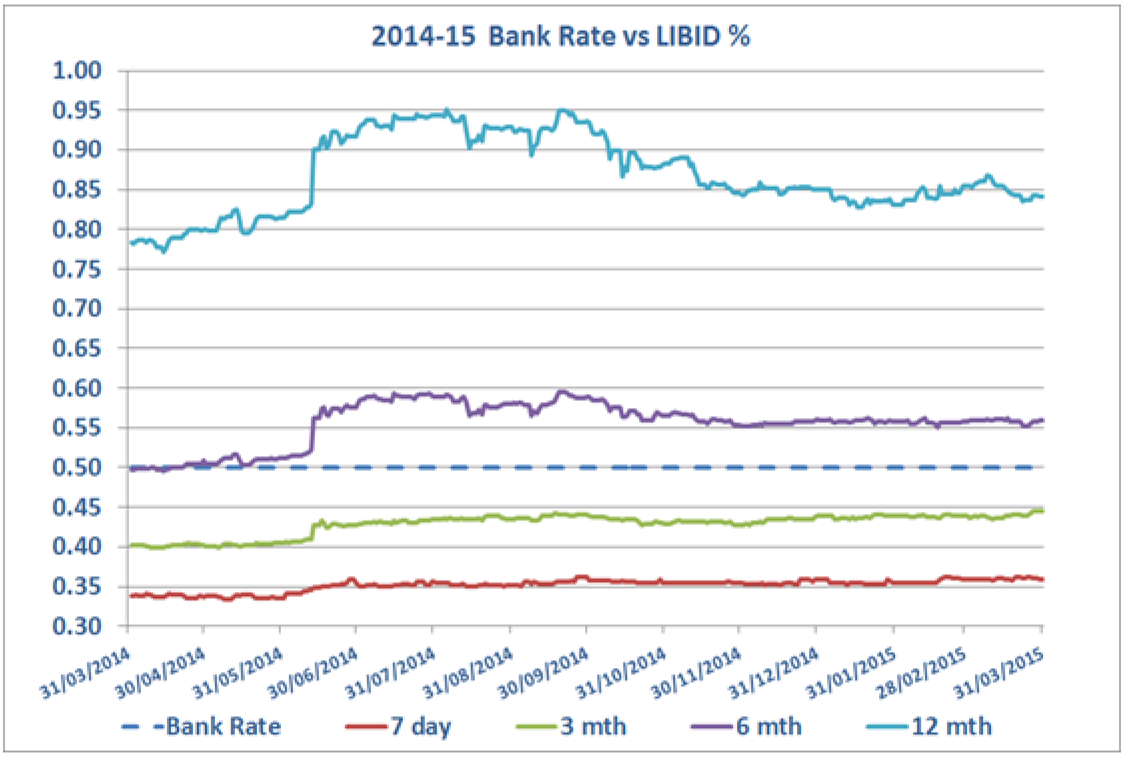
5.4 Over the 12 months to 31 March 2015, the council's cashflows were maintained through borrowing and lending activities on the wholesale money market and the net position outstanding at 31 March 2015 is temporary lending of £231.642m.

5.5 There was no short-term borrowing raised during the year to 31 March 2015. However, the figure of £4.50m treated as short term borrowing in the accounts relates to the arrangement with West London West Authority (WLWA) where monies are passed by WLWA for investment with the council on their behalf.

Investment Rate 2014/15

5.6 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

5.7 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2014/15.



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 maintained 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 £234.760m of internally managed funds and held an outstanding balance of £231.642m as at 31 March 2015. The internally managed funds earned an average rate of return of 0.583%. The comparable performance indicator is the average 7-day LIBID rate, which returned 0.345%.

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 and 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 2015 are outlined below

Counterparty Name	Total Investment as at 01/04/14 (£m)	Total Investment as at 31/03/15 (£m)
Local Authorities	(59.600)	(87.502)
Debt Management Office	(33.600)	(13.500)
Glitnir Bank HF	(0.441)	-
HSBC	(30.000)	(30.000)
Standard Chartered Bank	(10.000)	-
Lloyds TSB Bank Call Account	(30.000)	-
Natwest SIBA	-	-
Royal Bank of Scotland	(10.000)	(30.000)
Barclays	(20.000)	(20.000)
Lloyds TSB Bank	-	(30.000)
Treasury Bills	(4.999)	-
Nationwide Building Society	(20.000)	(20.000)
Future Ealing Ltd	(0.600)	(0.600)
Ealing Community Resource Centre	(0.050)	(0.040)
Total Investment	**(219.290)**	**(231.642)**

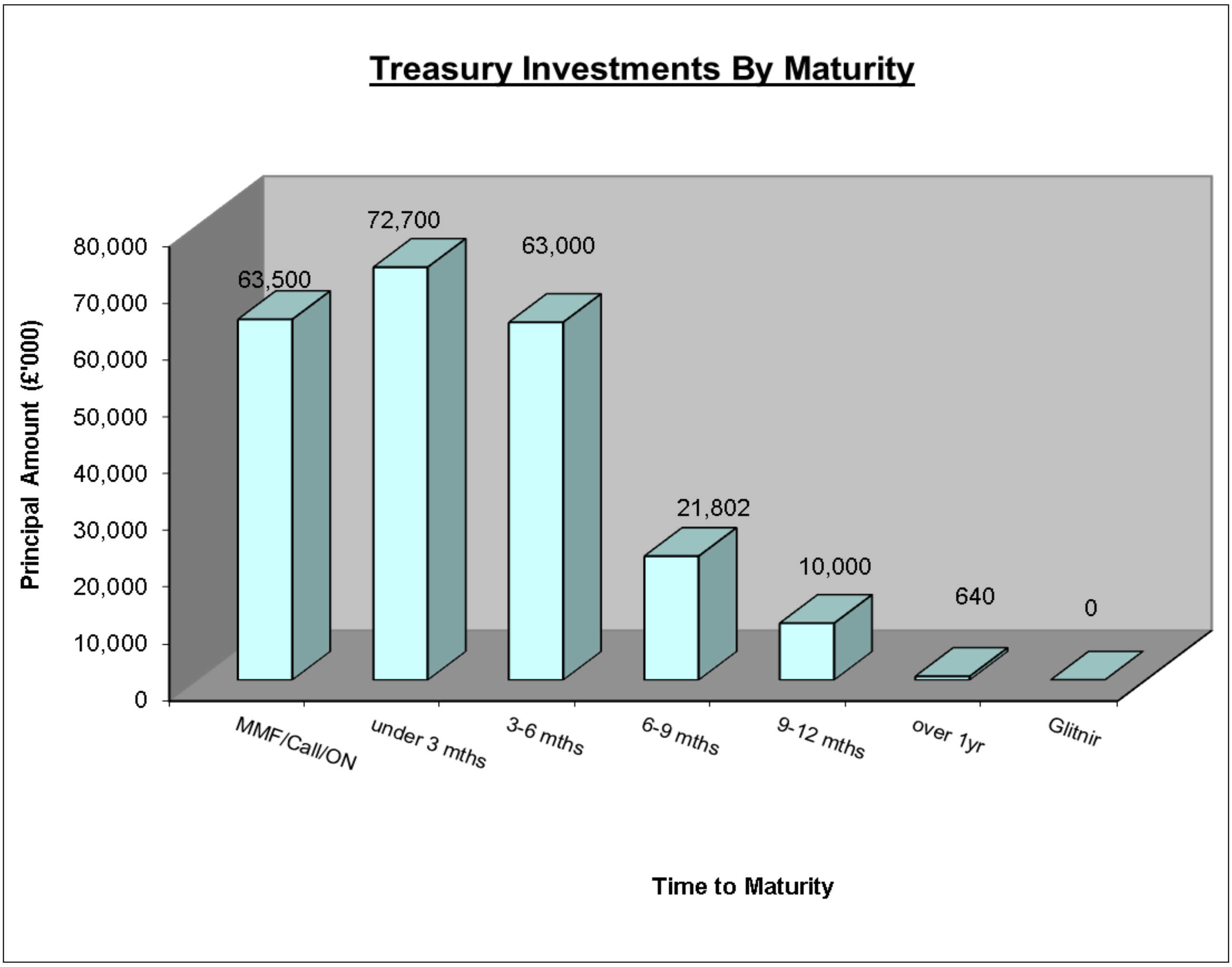
5.14 Within the above table, Members will note that the council continues to place investments with a number of local authorities and these are considered to be of high credit quality and are therefore on the council's approved list of counterparties. In the DCLG's Investment Guidance issued to councils, Local Authority deposits are deemed to offer "high security and high liquidity". The council had 29 investments placed across a number of councils totaling £87.502m as at 31 March 2015, these are set out in Appendix 1.

Extension and Review of Counterparty List

5.15 One item that has remained high up on the agenda and is being closely monitored is the advent of EU bail-in regulations and the impact this is likely to have on banks if they run into financial difficulty. In addition the UK government has substantially reduced its stake and will continue to do so in both Lloyds and RBS hence implicit support of these banks have been radically reduced.

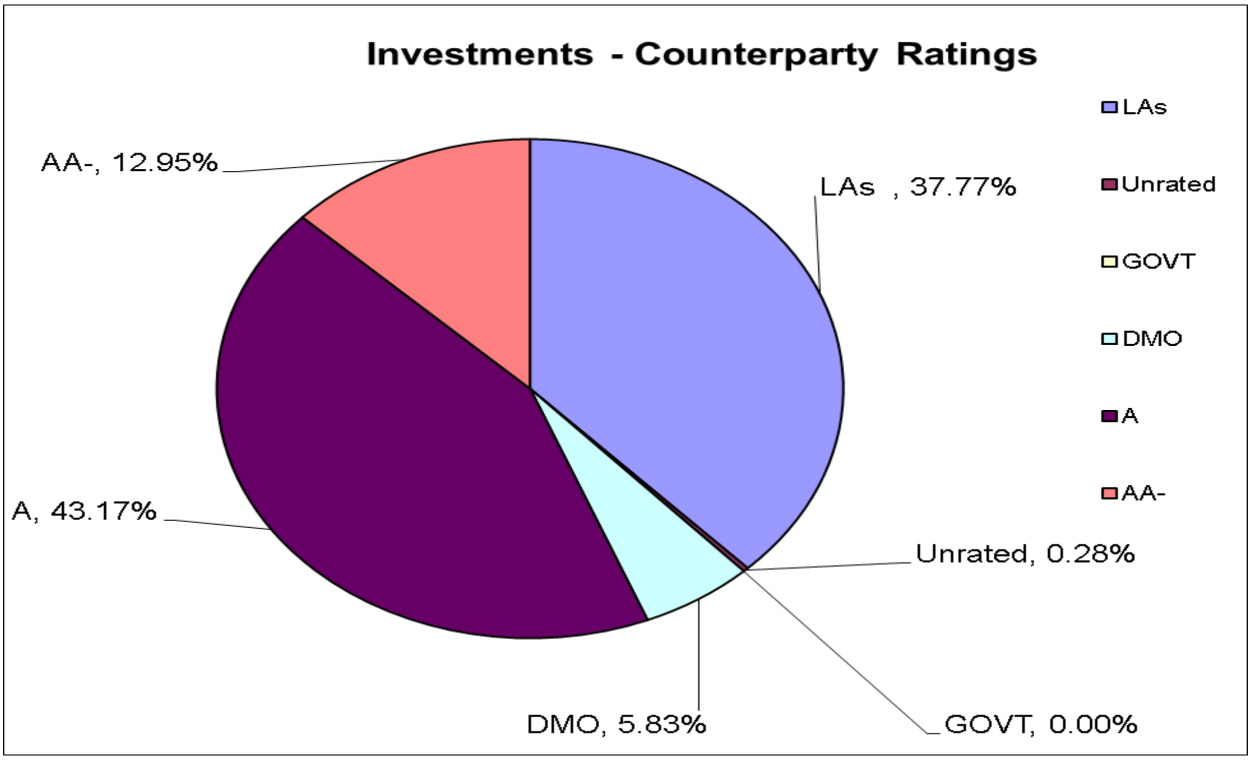
5.16 As outlined above, average investment balance from 1 April 2014 to 31 March 2015 was £234.760m**.** The level of funds available remained in the main attributable to the council's reserve balances and slippage on the Capital Programme.

Investment Maturity Profile at 31 March 2015



- *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 2015



**Unrated includes Future Ealing of 0.27% and Ealing Community of 0.03%*
AA, A – Fitch credit rating.

Temporary Borrowing

5.17 There was no requirement for temporary borrowing during the year.

Performance vs Benchmark

5.18 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 2014	0.553	0.338	0.215
May 2014	0.561	0.337	0.224
June 2014	0.561	0.348	0.213
July 2014	0.565	0.352	0.213
August 2014	0.576	0.352	0.224
September 2014	0.601	0.356	0.245
October 2014	0.581	0.356	0.225
November 2014	0.615	0.355	0.260
December 2014	0.606	0.355	0.251
January 2015	0.600	0.355	0.245
February 2015	0.589	0.358	0.232
March 2015	0.741	0.360	0.381
Average	0.596	0.345	0.218

Icelandic Investment update

5.19 All monies within Glitnir were subject to the Icelandic administration and receivership processes. The total payments to depositors such as the council have already been determined and repaid to the council by the Icelandic Winding Up Board (WUB). The council's settlement was widely reported.

5.20 The council has now repatriated the final funds held in an Icelandic escrow account due to Iceland's capital controls. This council participated in an Icelandic central bank auction and received the final settlement of £0.308m. This was reported at the last audit committee meeting on 17th March.

6 Long Term Borrowing Requirement and Debt

6.1 The council's Treasury Management Strategy Report approved in February 2014, outlined the council's long term borrowing strategy for the year

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 2014/15 were as follows

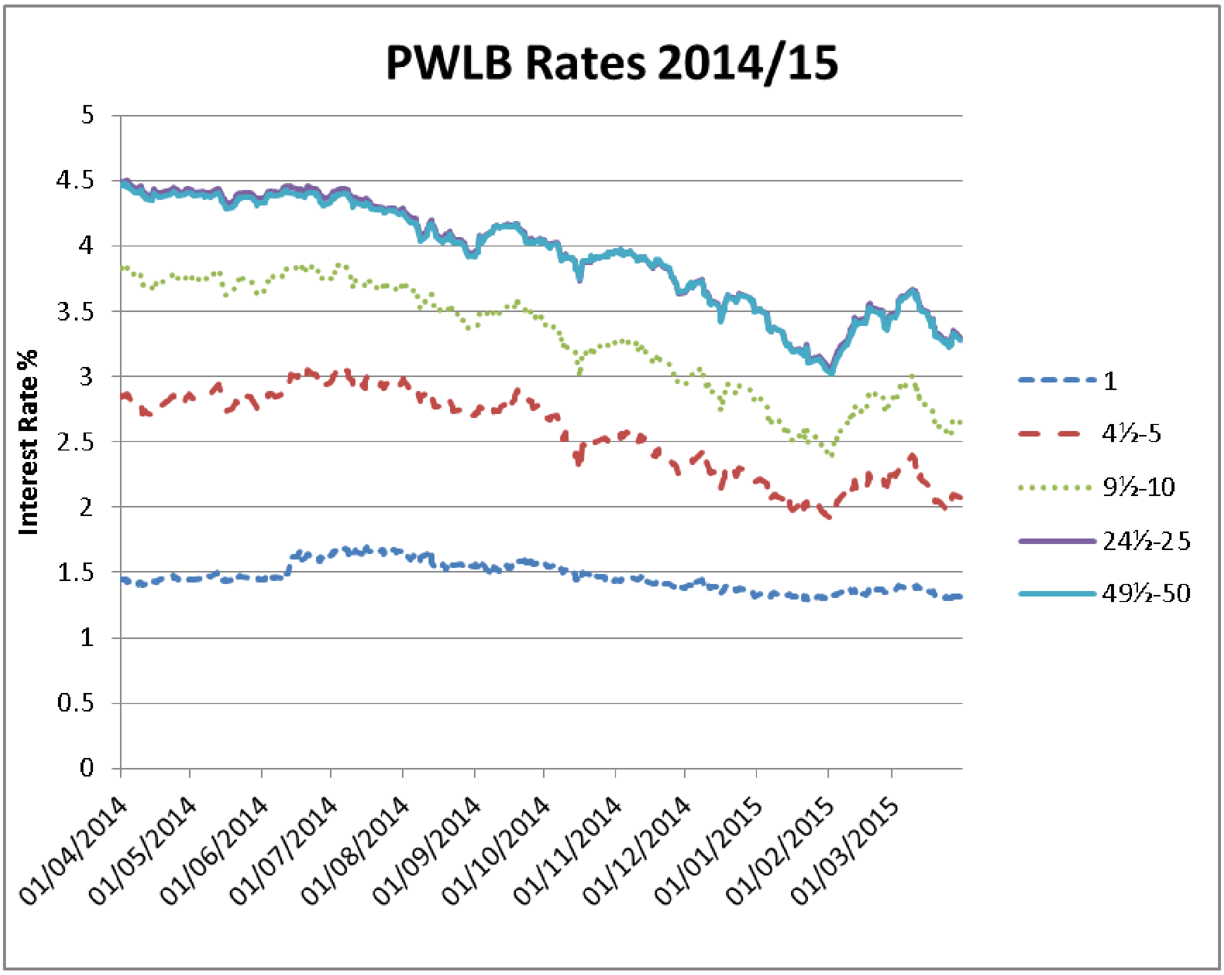
Period	**RANGE**		**RATE**
	Highest %	**Lowest %**	**31 March 2015 %**
5 year maturity	2.87	1.71	1.86
10 year maturity	3.66	2.18	2.45
50 year maturity	4.28	2.82	3.08

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

Capital Financing Requirement	**2013/14 Actual £m**	**2014/15 Actual £m**
CFR – non housing	391.173	425.408
CFR – housing	145.488	142.718
Total CFR	**536.661**	**568.126**

Borrowing rates in 2014/15

6.4 Average long term borrowing rate was budgeted for at 5.00% average borrowing. The graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



6.5 Gilt yields and consequently PWLB borrowing rates remained at lower than historical levels during the year 2014/15. The council did not raise any borrowing during 2014/15 as investment balances remain high and TRIBs collective view is that borrowing rates will continue to remain low for the foreseeable future. Deferring borrowing has resulted in £83.998m of internal borrowing. However, officers continue to monitor the position as this strategy carries interest rate risk

6.6 Total long term borrowing stood at £484.128m (including Mortlake Crematorium Board) on the 31 March 2015. The following table shows the split between General Fund and HRA borrowing, and that overall debt fell by £8.822m from £492.950m at 31 March 2014.

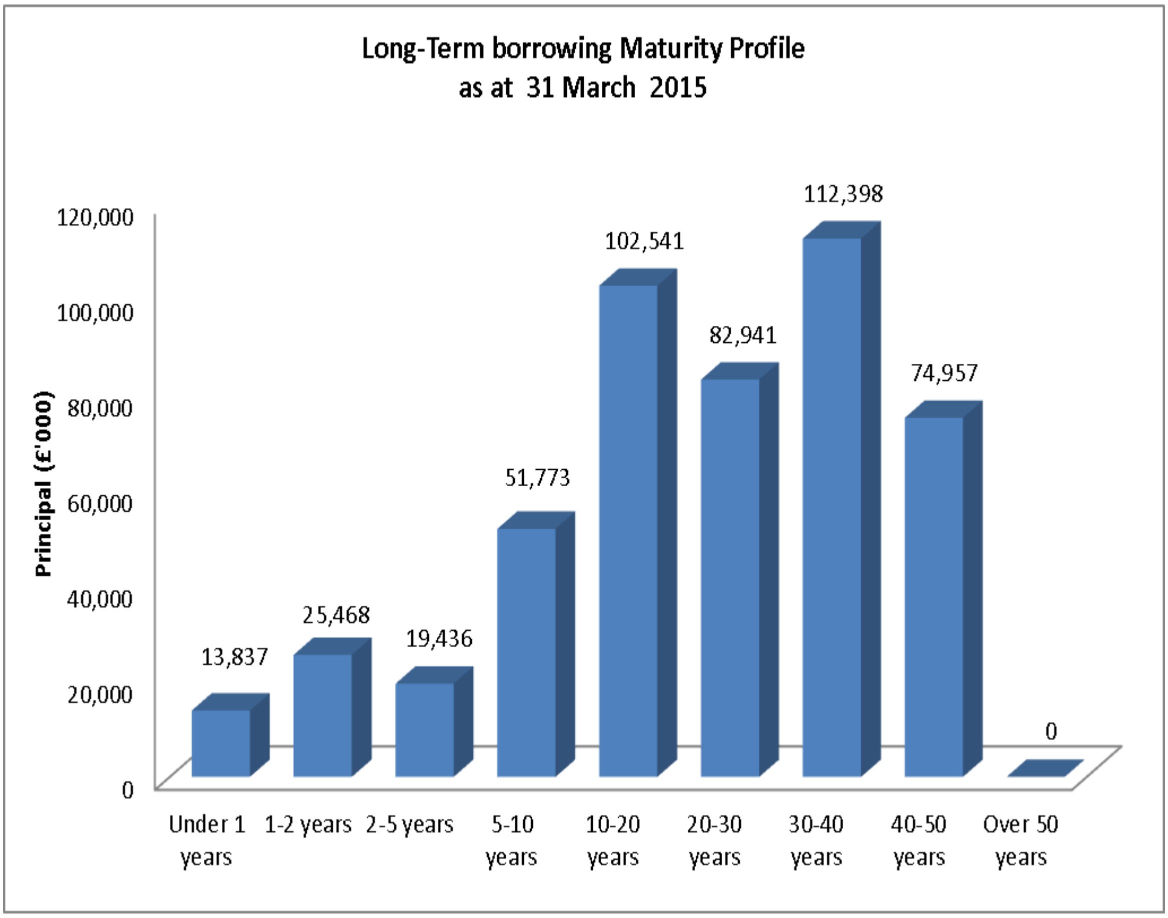
Source	Debt as at 01/04/14 £m	Loans raised £m	Loans repaid £m	Debt as at 31/03/15 £m
General Fund				
PWLB	285.228	-	(6.612)	278.616
Market Loans	62.016	-	-	62.016
*Mortlake Crematorium	0.218	0.560		0.778
Total General Fund	**347.462**	**0.560**	**(6.612)**	**341.409**
HRA				
PWLB	119.505	-	(2.770)	116.735
Market Loans	25.983	-	-	25.983
Total HRA	**145.488**	**-**	**(2.770)**	**142.718**
Total Long Term Borrowing	**492.950**	**0.560**	**(9.382)**	**484.128**
**Memo Item: PFI Obligation	132.860	-	(4.265)	128.595

<u>*Notes:*</u>

**The £0.560m '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 £484.128m was within the closing year end Capital Financing Requirement (CFR) of £568.126m. No long term borrowing was raised in the year in view of the level of investments held which allowed the council to internally borrow; hence actual borrowing was behind the council's CFR.



- *The above graph does not include the Mortlake loan of £0.778m.*

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 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 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 received refresher training on Treasury management at the Audit Committee meeting in March 2015 in preparation for the 2015/16 financial year. 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:

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

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 2014/15 are 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 2014/15 and PWLB borrowing was monitored throughout the year, the budgeted target rate was 5.00%. In addition, the treasury function operated within budget in 2014/15.

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

Name of consultee	Department	Date sent to consultee	Date response received	Comments appear in report para:
Maria G Christofi	Director of Finance	05-06-15	08-06-15	
Mike Stringer	Head of Finance Transformation	05-06-15	08-06-15	
Tim Sylvester	Strategic Finance Partner-Corporate	05-06-15	08-06-15	
Helen Harris Paddy Quill	Head of Legal	05-06-15	15-06-15	
Cllr Murtagh	Chair of the Audit Committee	15.06-15	15-06-15	
Cllr Yvonne Johnson	Portfolio Holder for Finance, Performance & Customer Services	15-06-15	16-06-15	

Report History

Decision type: For Action/Information	Urgency item? No

Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
	03 Jun 2015	16 Jun 2015	16 Jun 2015

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.