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

Contains Private and Confidential Information	**YES** (Appendix 1)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
Title	Treasury Management Outturn 2013/14	
Responsible Officer	Ian O'Donnell: Executive Director of Corporate Resources. Maria G. Christofi : Director of Finance	
Author(s)	Nigel Watson, Asst Director of corporate Finance Tel: 020 8825 6403. E-mail watsonn@ealing.gov.uk Bridget Uku, Group Manager, Treasury & Investments Tel: 020 8825 5981. E-mail: ukub@ealing.gov.uk Feyisayo Adekugbe, Treasury & Investment Accountant Tel: 020 8825 8294, E-mail: adekugbef@ealing.gov.uk	
Portfolio	Finance and Performance - Cllr Yvonne Johnson	
For Consideration By	Audit Committee	
Date to be Considered	24 June 2014	
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 2014. 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 2013-14, 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 2013-14.

1. Recommendations

Members are required to:

1.1 Note the Treasury Management activities and performance against targets for the 12 months to 31 March 2014.

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 2014 (set out in Appendix 1).

1.4 Note the Prudential indicators outturn for 2013/14 (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 the update on the remainder of 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 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.
- The Council’s remaining investment of £0.407m with the Glitnir bank and still retained in an Icelandic escrow account has now increased in value to £0.441m.
- There was no long-term borrowing raised during the year to 31 March 2014.
- Long term debt was reduced from £494.898m to £492.950m

- The Council earned 0.552% on short term lending, outperforming the actual rolling average 7 Day Libid rate of 0.354%.
- The Council currently holds no investments with overseas financial institutions (apart from the balance of £0.441m of the retained Icelandic investment).
- 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 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 complied with the strategy throughout the financial year 2013/14

<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 holds 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 2013/14. 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 26 February 2013, 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 Chair of the PFP is briefed regularly.

4. Economic Background

4.1 The following is a summary of key economic issues during the last quarter of financial year 2013/14: -

- Strong UK GDP growth and more indication of recovery.
- Inflation fell to 1.7% in February and continues to support interest rates remaining low
- Employment levels improved
- The Federal Reserve commenced their tapering of quantitative easing
- Global geopolitical flashpoints and concerns persisted

4.2 Market participants are forecasting strong UK growth will continue into 2014 because of encouraging forward surveys and after strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013,. There are also positive indications that recovery is starting to broaden away from UK's reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting.

4.3 This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC last August, before it would consider any increases in Bank Rate.

4.4 In the February 2014 Inflation Report, the MPC modified and broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting no increase before the end of 2014, though recent comments from MPC members have emphasised they would want to see well established strong growth, and an increase in labour productivity / real incomes, before they would consider raising Bank Rate.

4.5 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.7% in February with forward indications showing that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn

Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018/19.

4.6 The Federal Reserve has continued with its monthly $10bn reductions in asset purchases which started in December; asset purchases have now fallen from $85bn to $55bn and are expected to expire by the end of 2014, providing strong economic growth continues this year. It is yet to be determined when and how the unwinding of QE will happen.

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 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 2014

5.3 The Council's temporary borrowing and lending activity (that is 364 days or less) during the financial year 2013/14 is set out below

Description	Borrowing £m	Lending £m	Net Position £m
Outstanding 01 April 2013	-	(252.106)	(252.106)
Raised/ (lent) during period	3.000	(8,247.586)	(8,244.586)
Repayments during period	(3.000)	8,280.403	8,277.403
Outstanding 31 March 2014	-	**(219.289)**	**(219.289)**

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

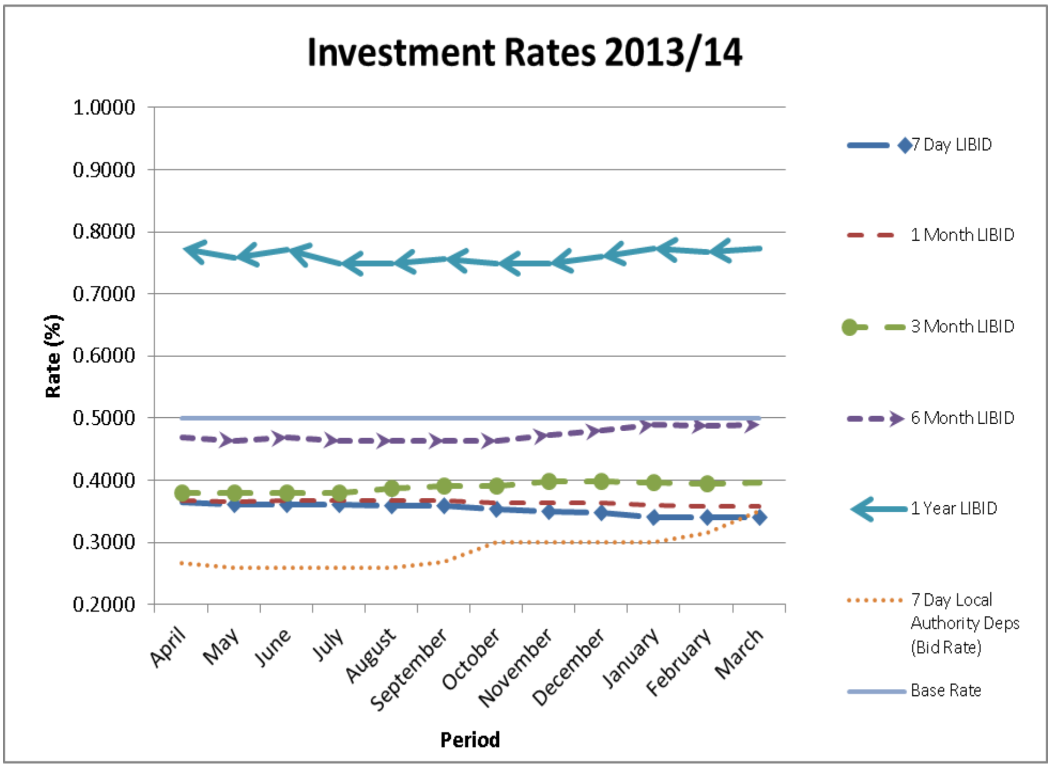
5.4 Over the 12 months to 31 March 2014, the Council's cashflows were maintained through borrowing and lending activities on the wholesale money market and the net position outstanding at 31 March 2014 is temporary lending of £219.289m.

5.5 £3.000m of short term borrowing (less than one week) was raised and repaid from other Local Authorities during the year to 31 March 2014.

Investment Rate 2013/14

5.6 The low interest rate environment brought on by the global financial crisis of 2008 has persisted. The Bank of England has maintained base rates at the historic low rate of 0.5% to stimulate recovery.

5.7 The graph below illustrates that investment rates remained at historically low levels over the course of the financial year 2013/14.



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 economies. 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 £273.571m of internally managed funds and held an outstanding balance of £219.289m as at 31 March 2014. The internally managed funds earned an average rate of return of 0.552%. The comparable performance indicator is the average 7-day LIBID rate, which returned 0.354%. Investment income of £1.500m was factored in the 2013/14 Treasury Management budget, but the Council achieved a marginally higher investment income outturn of £1.506m. The Council's key investment philosophy remained the prudent approach to counterparty selection and an emphasis on security of capital and liquidity ahead of yield.

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 of course was a continuous reduction in the investment income received by the Council.

5.13 Investments held at 31 March 2014 are outlined below

Counterparty Name	Total Investment as at 01/04/13 (£m)	Total Investment as at 31/03/14 (£m)
Local Authorities	(116.700)	(59.600)
Debt Management Office	(13.900)	(33.600)
Glitnir Bank HF	(0.407)	(0.441)
HSBC	(30.000)	(30.000)
Standard Chartered Bank	-	(10.000)
Lloyds TSB Bank Call Account	(30.000)	(30.000)
Natwest SIBA	(40.000)	-
Royal Bank of Scotland	-	(10.000)
Barclays	(20.000)	(20.000)
Treasury Bills	(0.499)	(4.999)
Nationwide Building Society	-	(20.000)
Future Ealing Ltd	(0.600)	(0.600)
Ealing Community Resource Centre	-	(0.050)
Total Investment	**(252.106)**	**(219.290)**

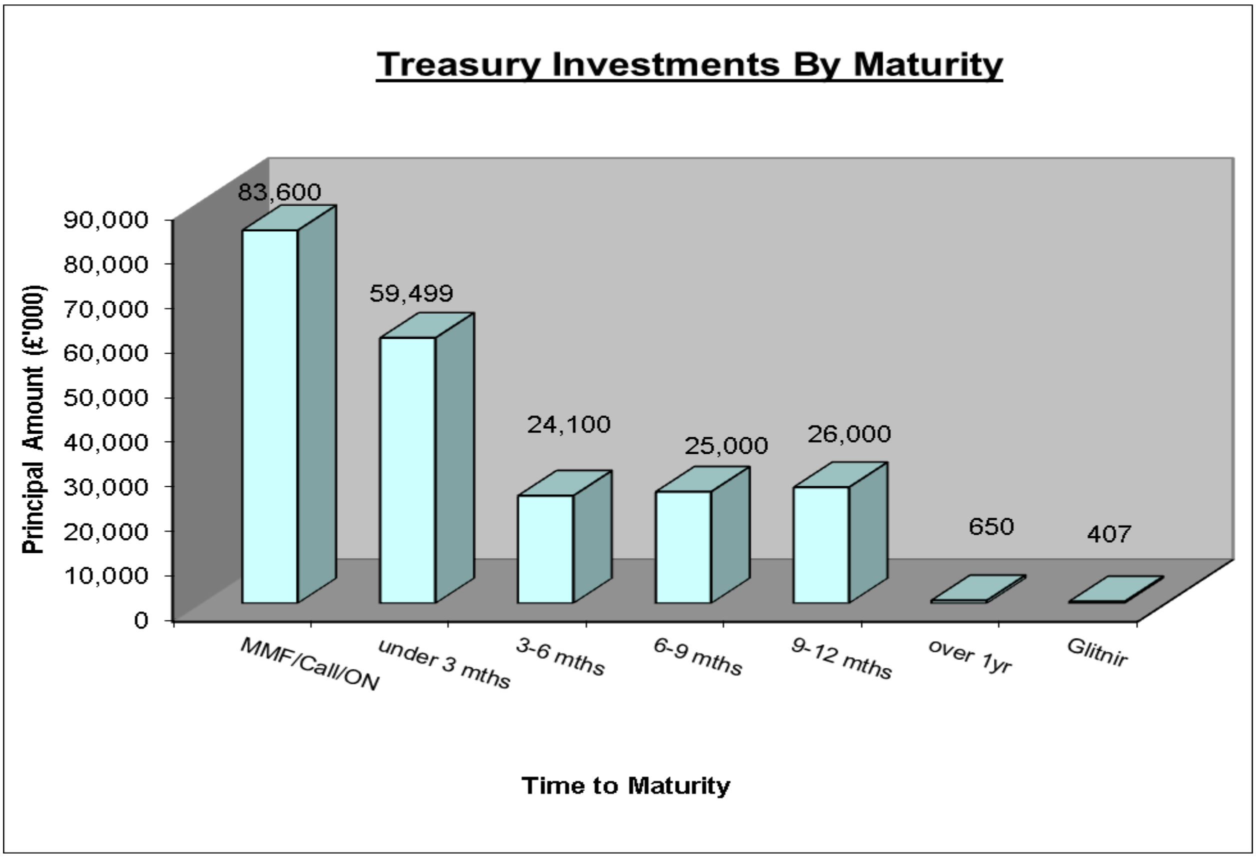
5.14 Within the above table, Members will note that the Council continues to place investments with a number of local authorities and these are considered to be of high credit quality and are therefore on the Council's approved list of counterparties. In the DCLG's Investment Guidance issued to Councils, Local Authority deposits are deemed to offer "high security and high liquidity". The Council had 16 investments placed across a number of councils totaling £59.600m as at 31 March 2014, these are set out in Appendix 1.

Extension of Counterparty List

5.15 During the first quarter of 2013/14 Standard Chartered was incorporated as counterparty for certificates of deposits (CDs). The CDs placed have been facilitated through custody arrangements provided by King & Shaxson. The net return achieved on this investment after brokerage was higher than current DMO's rates. Nationwide was reinstated on to the Council's lending list for a maximum duration of three months.

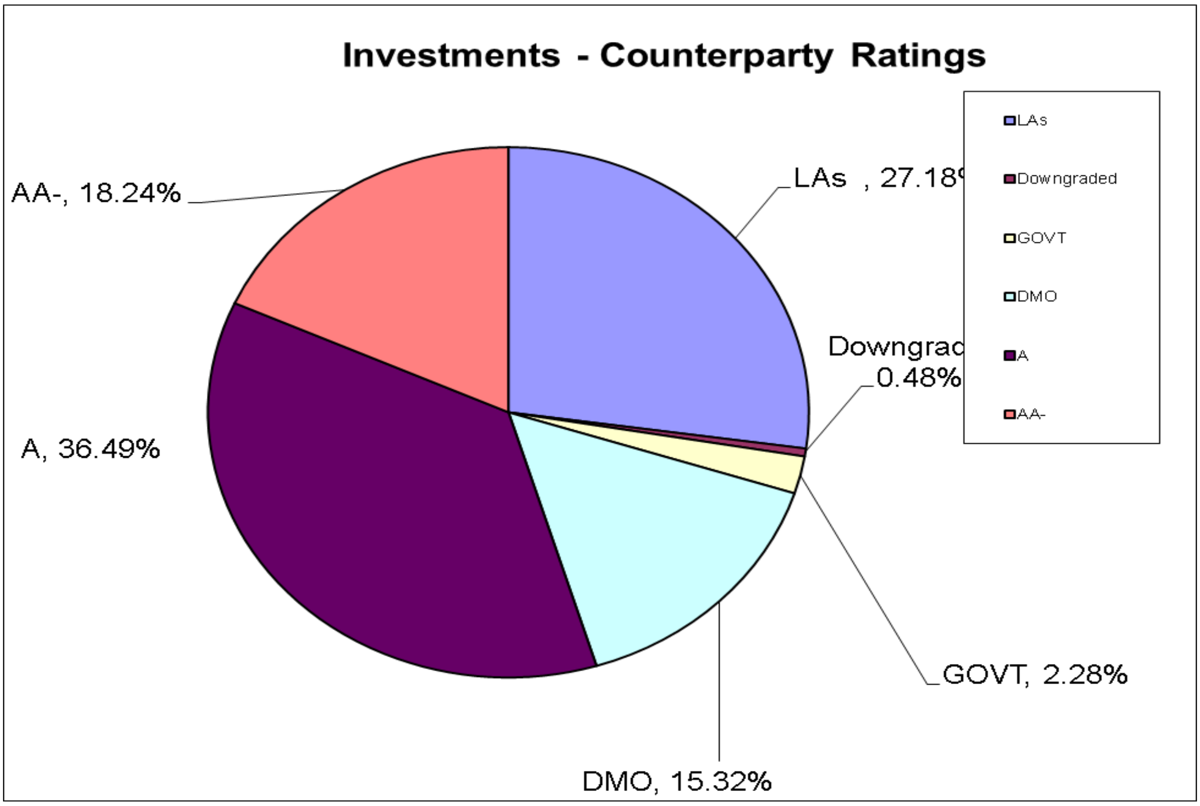
5.16 As outlined above, average investment balance from 1 April 2013 to 31 March 2014 was £273.571m**.** The level of funds available remained in the main attributable to the Council's reserve balances and slippage on the Capital Programme.

<u>Investment Maturity Profile at 31 March 2014</u>



- *The Council currently has two investments that have a maturity period of over one year – Future Ealing and Ealing Community Resource Centre. The graph does not incorporate the £33.8k accrued interest added to Glitnir investment at year-end. Will be incorporated following update of SS.*

Investments by Counterparty Rating at 31 March 2014



**Downgraded includes Glitnir of 0.18%, Future Ealing of 0.27% and Ealing Community of 0.03%*
AA, A – Fitch credit rating.

Temporary Borrowing

5.17 During the year, temporary borrowing of £3.000m was raised to cover short term cash flow requirements.

Performance vs Benchmark

5.18 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 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
January 2014	0.593	0.343	0.250
February 2014	0.550	0.343	0.207
March 2014	0.532	0.341	0.191
Average	0.552	0.354	0.198

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 mostly repaid to the Council by the Icelandic Winding Up Board (WUB).

5.20 As at financial close 2011/12, the council had received a distribution of £1.665m of its stranded Icelandic investment from the Glitnir bank WUB. Funds were received in a basket of 4 currencies. A balance of £0.441m (including accrued and reinvested interest) is still being held in an escrow account in Iceland. This amount will be received once Icelandic capital controls are lifted. A sum of £2,440 withholding tax on interest was repaid direct to the Council in 2013/14.

5.21 The council has been notified by the WUB that there was a net overpayment of the distribution made in 2011/12 due to the incorrect date being used for the foreign exchange rate conversion. This resulted in overpayments and underpayments in all currencies. The net position is an overpayment of around £36,000. This amount is likely to be settled in 2014/15. However, in cooperation with the LGA and other creditors, the Council is seeking to settle this amount from the escrow account held in Iceland.

5.22 The Council is exposed to currency risk by virtue of the residual amount being retained in Icelandic Krone. Interest is still accruing at the rate of 4.2%. The investment value rose during 2013/14 from £0.423m as at 1 April 2013 to £0.441m as at 31 March 2014 as a result of accrued interest, a nominal foreign currency gain and a small reduction in respect of withholding tax received directly by the Council.

5.23 Delays are still anticipated in recovering the current balance of £0.441m while Icelandic currency controls persist. However, all efforts are being made to find other avenues to secure repatriation of the funds held in escrow.

6 Long Term Borrowing Requirement and Debt

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

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

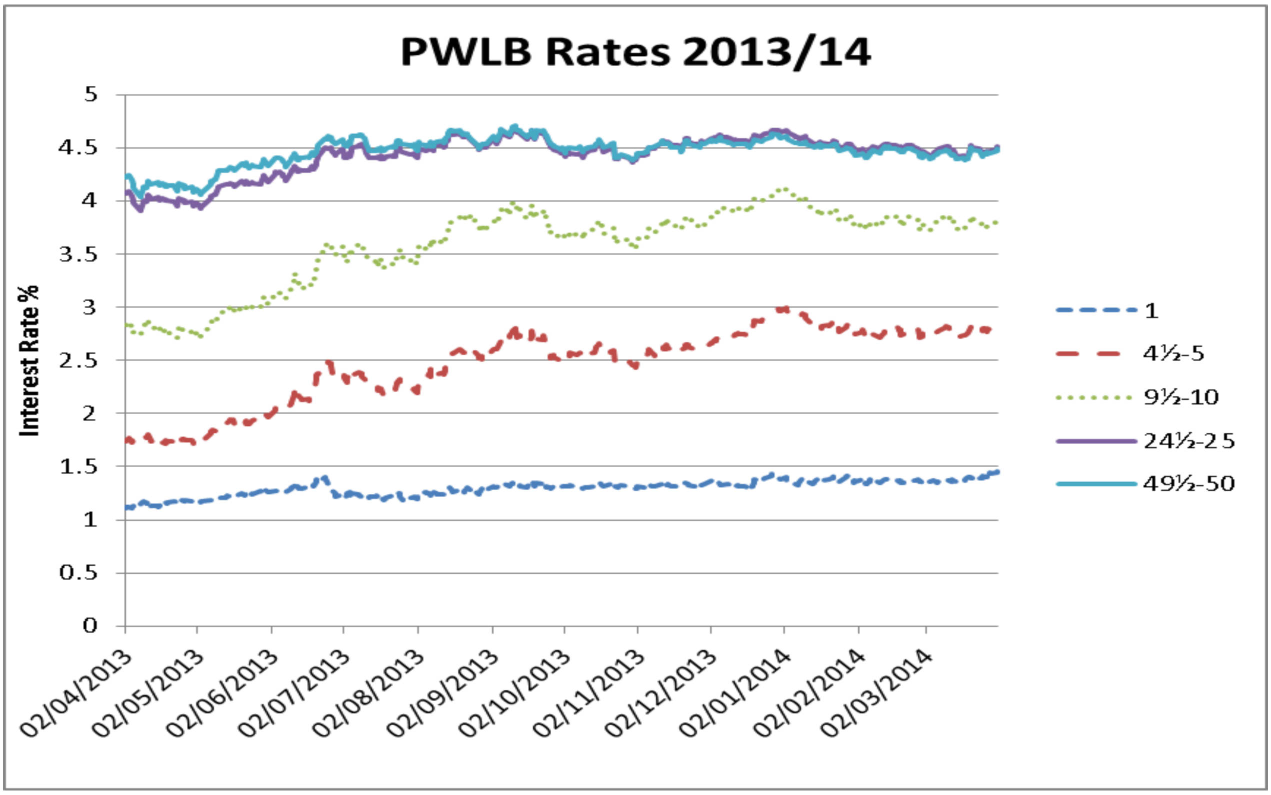
6.3 The Council operates a dual Treasury Management Strategy for managing the General Fund (GF) and the Housing Revenue Account (HRA) debt. Actual PWLB maturity loan interest rates in the financial year 2013/14 were as follows

Period	RANGE		RATE
	Highest %	Lowest %	31 March 2014 %
5 year maturity	3.00	1.70	2.87
10 year maturity	4.11	2.71	3.84
50 year maturity	4.71	4.04	4.49

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

Capital Financing Requirement	2012/13 Actual £m	2013/14 Actual £m	2014/15 Estimate £m
CFR – non housing	370.608	391.173	440.610
CFR – housing	146.032	145.488	167.718
Total CFR	**516.640**	**536.661**	**608.328**

6.4 Average long term borrowing rate was budgeted for at 5.00% average borrowing. The graph below shows a summary of PWLB rate during the financial year 2013/14



6.5 Gilt yields and consequently PWLB borrowing rates remained at lower than historical levels during the year 2013/14. The Council did not raise any borrowing during 2013/14 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 £43.711m 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 £492.950m (including Mortlake Crematorium Board) on the 31 March 2014. The following table shows the split between General Fund and HRA borrowing, and that overall debt fell by £2.073m from £494.898m at 31 March 2013.

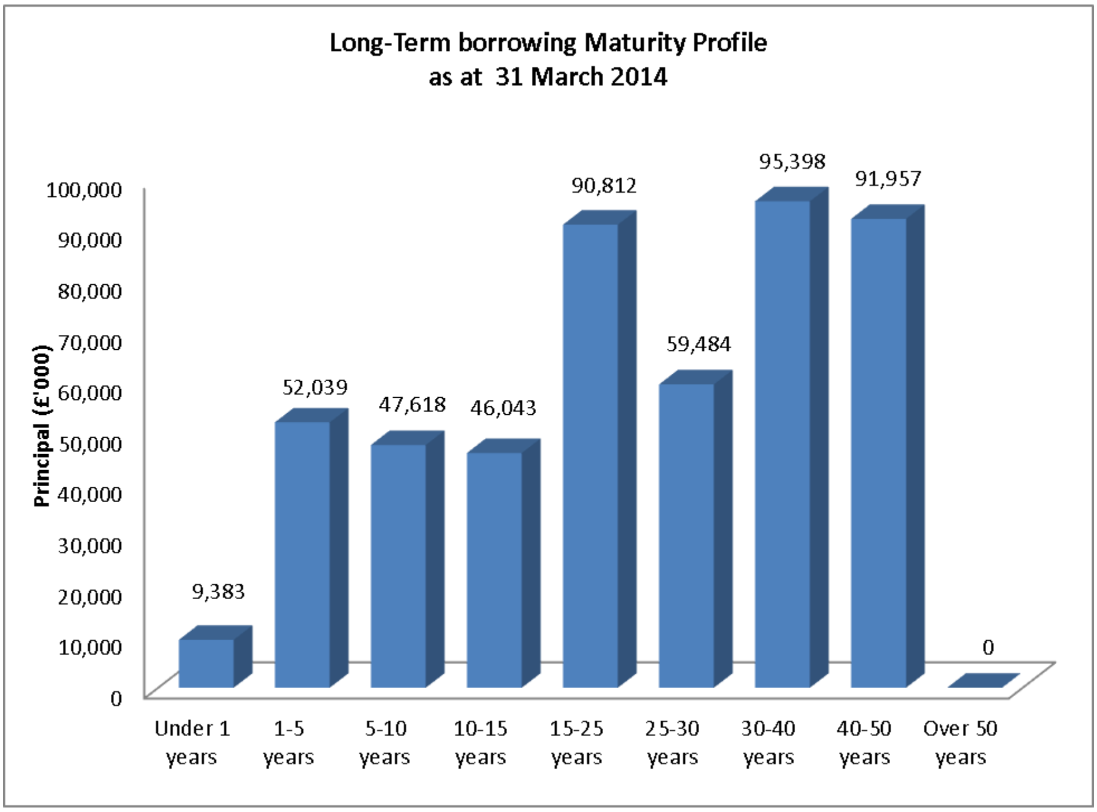
Source	**Debt as at 01/04/13 £m**	**Loans raised £m**	**Loans repaid £m**	**Debt as at 31/03/14 £m**
General Fund				
PWLB	286.527	-	(1.299)	285.228
Market Loans	62.016	-	-	62.016
*Mortlake Crematorium	0.323	0.125	(0.230)	0.218
Total General Fund	**348.866**	**0.125**	**(1.529)**	**347.462**
HRA				
PWLB	120.049	-	(0.544)	119.505
Market Loans	25.983	-	-	25.983
Total HRA	**146.032**	**-**	**(0.544)**	**145.488**
Total Long Term Borrowing	**494.898**	**0.125**	**(2.073)**	**492.950**
**Memo Item: PFI Obligation	136.343	-	(3.483)	132.860

<u>*Notes:*</u>

**The £0.125m '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 £492.950m was within the closing year end Capital Financing Requirement (CFR) of £536.661m. 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 £0.218m*.

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 2013 in preparation for the 2013/14 financial year. This is to ensure they maintain the relevant knowledge and skills required to fulfil their scrutiny role in the most effective manner. A training session will be scheduled for the September Audit Committee meeting.

7.6 The Council has adopted and will 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

Budget 2013/14 £m	Outturn 2013/14 £m	Variance 2013/14 £m
36.237	36.237	-

8.1 The Treasury Management outturn position has continued the trend of recent years, with a lower than budgeted spend on Finance and Interest charges and reduced spending of £6.452m being mainly attributable to deferred borrowing and slippage on the capital programme. The Council has not raised any new borrowing during 2013/14 and the Council's positive cash flow position has been deployed in support of capital spending (through direct revenue financing) and to defer borrowing through internal borrow. 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 reduction, mainly in borrowing costs has enabled a one off contribution of £3.200m to be made into the Pension Fund to generate a permanent saving and to stabilize contributions rates going forward and has also enabled a one-off revenue contribution to capital financing of £3.200m.

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 2013/14 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. 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 for the year 2013/14 and PWLB borrowing was monitored throughout the year, the budgeted target rate was 5.00%. In addition, the treasury function operated within budget in 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 Councils 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	09-06-14	13-06-14	Throughout
Nigel Watson	Assistant Director of corporate Finance	09-06-14	11-06-14	Throughout
Matthew Bunyon	Head of Financial Planning & Investments	09-06-14	10-06-14	Throughout
Helen Harris	Head of Legal	09-06-14		
Catherine Taylor		09-06-14	09-06-14	
Cllr Murtagh	Chair of the Audit Committee	09-06-14		

Report History

Decision type: For Action/Information	Urgency item? No

Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
	06 Jun 2014	16 Jun 2013	13 Jun 2013

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.