Non-Executive Report of the: **AUDIT COMMITTEE** 8th December 2015	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:** Unrestricted
Mid - Year Review For Treasury Management and Investment Strategy 2015/16	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report reviews progress on the Treasury Management and Investment Strategy that was approved by Full Council on 25 February 2015 as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (Revised 2011).

The report reviews how the Treasury Management team has managed the Council's cash balances, investments, borrowings and treasury related risks. The report also sets out the economic environment and how this has impacted on investment returns.

The key messages from this report are that:

- 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 agreed limits.
- There was no long-term borrowing raised during the period to 30 September 2015.
- The existing long-term debt reduced to £88.661m following a PWLB maturity of £231k for the financial year to 30 September 2015.
- The Council earned an average investment return of 0.76% on short term lending, outperforming the rolling average 7 Day LIBID rate of 0.35%.

Recommendations

The Audit Committee is asked to recommend the report to the Council to:

- Note the Treasury Management activities and performance against targets for the six months to 30 September 2015.
- Note the current development and update for MiFID II Impact on LGPS and Local Authorities and also Changes in credit rating methodology as set out in section 4.
- Note the Council's investment balance of £421.3m as at 30 September 2015 of which £40m was invested in other Local Authorities (set out in Appendix 1).
- Note the Council's position on prudential indicators (set out in Appendix 6).

1. REASONS FOR DECISIONS

1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 requires that regular reports be submitted to Council/Committee detailing the council's treasury management activities.

1.2 The Council also agreed as part of the Treasury Management Strategy Statement to receive a number of reports. Furthermore, the CIPFA Treasury Management Code of Practice requires that Full Council/Committee should receive a Mid-Year Report reviewing Treasury Management/Investment.

2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the CIPFA Treasury Management (TM) Code. The Code requires that the Council should receive a mid-year report reviewing treasury management and investment.

2.2 If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that Members are kept informed about treasury management activities and to ensure that these activities are in line with the investment strategy approved by the Council

3. DETAILS OF REPORT

3.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) has been adopted by the Council.

3.2 One of the requirements of the Code is that Full Council/Committee should receive an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Outturn Report (stewardship report) covering activities during the previous year.

3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 25 February 2015. The 2014/15 Outturn report was approved by Full Council on 16 September 2015.

3.4 This mid - year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2015/16.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy, which constitutes the following:
    - The Council's borrowing strategy for 2015/16.
    - The Council's investment strategy for 2015/16.
    - The Council's investment portfolio for 2015/16.
    - The Council's capital expenditure (prudential indicators).
    - A review of compliance with Treasury and Prudential Limits for 2015/16.

3.5 AN ECONOMIC UPDATE FOR THE FIRST SIX MONTHS OF 2015/16

3.5.1 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

3.5.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

3.5.3 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

3.5.4 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for

September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

3.5.5 In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

3.6. INTEREST RATE FORECASTS

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

3.6.1 Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

3.6.2 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

3.6.3 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.6.4 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

3.6.5 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

a. Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

b. UK economic growth turns significantly weaker than currently anticipate.

c. Weak growth or recession in the UK's main trading partners - the EU, US and China.

d. A resurgence of the Eurozone sovereign debt crisis.

e. Recapitalisation of European banks requiring more government financial support.

f. Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

i. Uncertainty around the risk of a UK exit from the EU.

ii. The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.

iii. The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

iv. UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

3.7 TREASURY MANAGEMENT STRATEGY STATEMENT

3.7.1 The Treasury Management Strategy Statement (TMSS) for 2015/16 was approved by the Council on 25 February 2015, and it comprised the following:

- Borrowing Strategy
- Minimum Revenue Provision
- Annual Investment Strategy
- Treasury Management Policy statement; and
- Prudential Indicators for Treasury Management

3.7.2 All the Council's treasury activities have been carried out within this strategy framework.

Borrowing Strategy

3.7.3 The Council's approved borrowing strategy is set out at Appendix 1. The strategy remains appropriate to meet the Council's financing needs for its capital programme and loan redemptions.

Debt Portfolio

	31 March 2015 Principal £'000	Average rate %	30 September 2015 Principal £'000	Average rate %
Fixed Rate Funding:				
-PWLB	11,393	7.32	11,161	7.26
-Market	13,000	4.37	13,000	4.37
Total Fixed Rate Funding	24,393	5.75	24,161	5.71
Variable Rate Funding:				
-PWLB	-		-	
-Market	64,500	4.32	64,500	4.32
Total Variable Rate Funding	64,500	4.32	64,500	4.32
Total debt	***88,893***	***4.71***	***88,661***	***4.70***
CFR	***227,517***		***228,877***	
Over/ (under) borrowing	***(138,624)***		***(140,216)***	

3.7.4 The table above sets out the Council's debt as at the beginning of the year and 30 September 2015.

3.7.5 As at the 30 September 2015, £231k of General Fund PWLB (Public Works Loans Board) debt had been repaid. The maturity profile of the external borrowing portfolio as at the 30 September 2015 is shown at Appendix 1.

3.7.6 **Borrowing Requirement**: The Council has an approved borrowing requirement of £11 million towards financing the 2014/15 and 2015/16 Capital Programme and to provide for loan redemptions and replacement. As part of the Council's capital programme £159.9million of capital grants and contributions have also been earmarked to resource internally funded capital schemes.

3.7.7 Over the next three years, forecasts indicate that investment rates are expected to be below long term borrowing rates. This would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings.

3.7.8 Hence, there has been no new borrowing during the period 01 April 2015 to 30 September 2015. Total debt outstanding, stands at £88.661m, against estimated CFR of £228.877m for 2015/16, resulting in an under-borrowing of £140.216m

3.7.9 **Debt Rescheduling:** The debt portfolio is periodically reviewed to see if cashflow benefits can be obtained from rescheduling debt. In the current interest rate environment, PWLB repayment rates are generally not favourable and any rescheduling undertaken would incur a large cash penalty payment, thus limiting opportunities. The portfolio will be kept under review and advice sought from Capita Asset Services as appropriate.

3.7.10 No debt rescheduling was undertaken during the first six months of 2015/16.

3.8 Minimum Revenue Provision

3.8.1 The Council has a statutory requirement to repay an element of accumulated General Fund capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is required to approve each year a Minimum Revenue Provision Policy Statement and make prudent provision. Revenue Provision to repay General Fund capital expenditure debt in 2015/16 is £6.2 million and has been calculated in accordance with the policy statement.

3.8.2 With regard to assets financed under the Public Finance Initiative (PFI) and finance leases that were brought on balance sheet as a result of the accounting changes brought about by the requirement to report in accordance with International Financial Reporting Standards, mitigating regulations allow that MRP be contained within the existing revenue charge so that the effect on the General Fund is neutral. The approved Minimum Revenue Provision Policy Statement for 2015/16 is set out at Appendix 2.

3.9 Annual Investment Strategy.

3.9.1 The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity; and
- Yield

3.9.2 **Security**: The Council has in place creditworthiness criteria, which the officers had strictly adhered to when making investment decisions during the first six months of 2015/16. Monetary and Capita duration limits are applied to manage counterparty exposure risk. Global markets have remained uncertain and the Council continues to implement an operational investment strategy which tightens the controls already in place within the approved investment strategy. Investment processes are constantly monitored and are regularly reviewed by Investment and Treasury Manager, Chief Accountant and the Corporate Director of Resources.

3.9.3 **Liquidity**: The Council is required to have available, or have access to, adequate resources to enable it at all times to have the level of funds which are necessary for the achievement of its service objectives. Cashflow modelling is used to meet this requirement. The liquidity of the investment portfolio is monitored regularly.

3.9.4 For debt management purposes the Council has in place overdraft facilities with the Council's bankers The Cooperative Bank plc, and has access to the PWLB and the money market to fund capital projects. Internal balances are available to temporarily fund capital expenditure. Whilst this will help reduce the need to invest any surplus cash, this must be balanced against the future requirement to replace these balances, and ensure that sufficient cash is available to meet the Council's liquidity requirements.

3.9.5 **Yield:** The Council has a good record in managing its investment portfolio and seeks to obtain the best return (yield) available on its investments, but it adheres at all times to the approved investment criteria. The Council compares the return on its investments against the seven day London Interbank Bid (LIBID) rate. Despite the challenging investment environment, as at 30 September 2015 the return on the Council's investments was 0.76%, which compares very favourably against the seven day LIBID rate of 0.35%, which is local authority benchmark.

3.9.6 Officers will continue to work to maintain and strengthen the Council's investment policy and will refer back to Council with any modification thought to be beneficial to the efficient and effective management of the Council's funds.

3.9.7 Credit rating information is supplied by Capita Asset Services, our treasury advisers, on all active counterparties that comply with the criteria as shown at table 1 of Appendix 3. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any credit rate changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

3.9.8 The Council will lend to the UK Government and its banking sector and to overseas banks from countries with a AAA sovereign rating from Fitch and other credit reference agencies.

3.9.9 The Council uses Fitch ratings (or equivalent from other agencies if Fitch does not provide a rating) to derive its counterparty criteria, but takes into consideration ratings from all three main credit ratings providers when compiling its counterparty list. The Council takes an overall view on its counterparties so that an organisation could be removed from the list if the predominant view of the organisation is pessimistic. Where the overall view of the three main ratings agency is pessimistic, the Council is likely to adopt the most pessimistic of the available ratings.

3.9.10 A key issue that faces the efficient and effective management of the Council's cash portfolio currently is that of counterparty availability. The Councils have deposit of £110m outstanding with the part nationalised banking groups and the challenge ahead will be to address the decline in the Government holding in Lloyds Banking Group and the impact that this could have on the counterparty limit that the Council currently applies to this entity.

3.9.11 Capita has removed Lloyds group from part nationalised classification as the Government stakes have been reduced to less than 15%. However based on Lloyds banking group current credit ratings the monetary and time limits that applied to this establishment based on the Council credit worthiness policy are a **monetary limit of £20m** and a maximum **time limit of 6 months**. The Council currently has £70m of investment outstanding with the group, as listed below:

Amount	Maturity	Amount	Maturity
£5m	Nov-15	£15m	Mar-16
£5m	Dec-15	£35m	Apr-16
£5m	Feb-15	£5m	Aug-16

3.9.12 The above investments were undertaken prior to this change, that is, they were transacted when the bank met the Council's treasury adviser criteria for classifying the bank as a part nationalised bank. No more transactions are being carried out with the group. All deposits are less than one year to maturity; these investments would now be managed down to the Council’s current monetary and time limits for the institution.

3.9.13 Investments and borrowing during the first six months of the year have been in line with the Strategy, with no deviations.

3.10 INVESTMENT PORTFOLIO 2015/16

3.10.1 In accordance with the Code, it is the Council’s priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council’s risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach including sovereign credit rating.

3.10.2 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The level of funds available for investment purposes during the year has been fluctuating between £350m £480m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

3.10.3 The Council's budgeted investment return for 2015/16 was £2.45m, with average rate of return 0.7% for average portfolio balances of £350m.

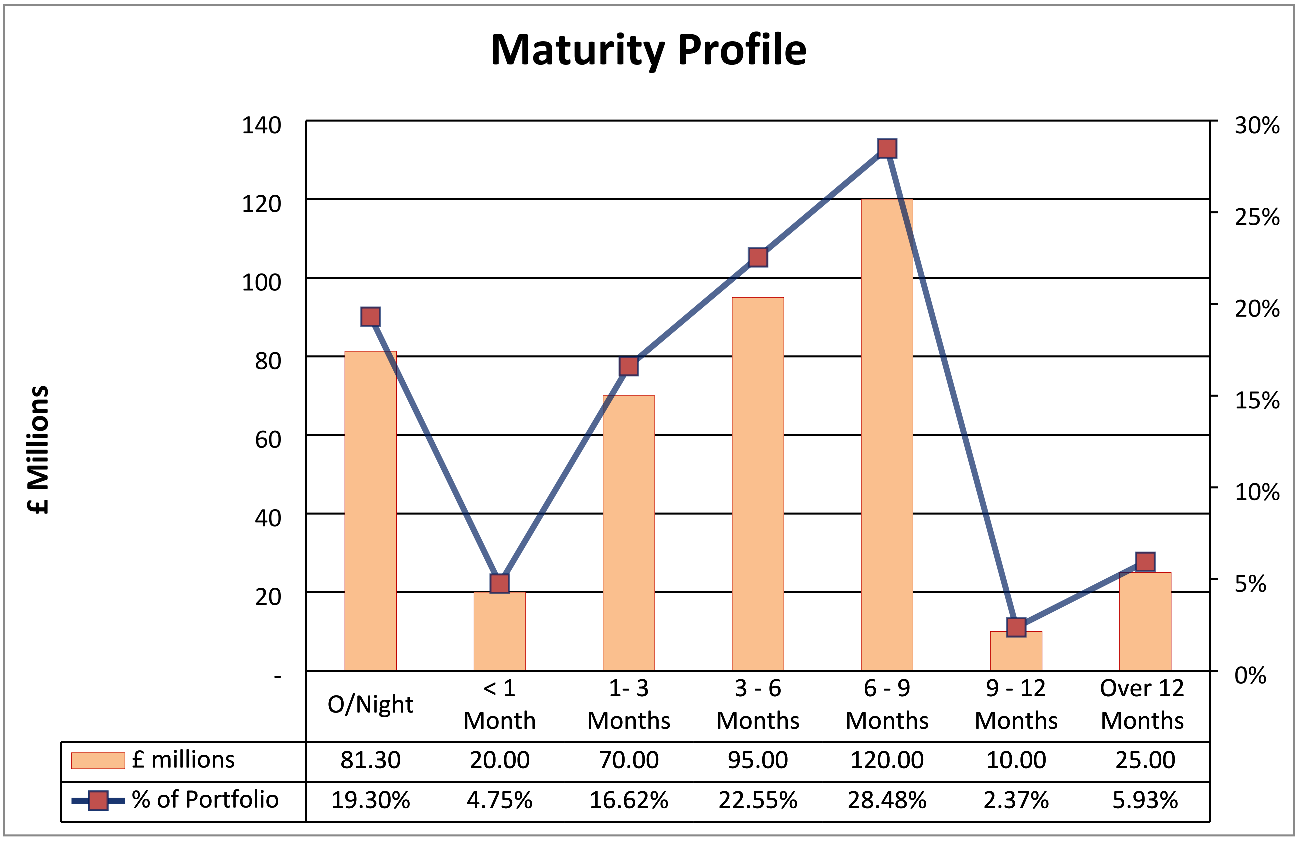
Benchmark	Council Performance	Investment Interest Earned as at 30 Sept 2015
0.35%	0.76%	£1.8m

3.10.4 As illustrated, the council outperformed the benchmark by 36 bps. The investment interest earned as at 30th September was £1.8m; this was due to the large investment portfolio balances the Council is currently running with, the average investment portfolio balance of £446m as at 30th September 2015.

3.10.5 It has also not been possible to re-invest matured investments at favourably rates due to the low interest rate environment.

3.10.6 The above chart illustrates the maturity structure of deposits as at 30th September 2015 with a detailed list of current investments attached as Appendix 5 of this report.

Maturity Structure of Investments



3.10.7 The council held £421.3m of investments as at 30 September 2015 (£292.45m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.76% against a benchmark of 0.35%.

3.10.8 The outstanding investments of £421.3m include Pension Fund surplus cash of some £48.8m which is being invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director of Resources to manage within agreed parameters. £45m of this surplus cash will transfer to a fund manager by December 2015.

3.10.9 At the end of September, we have 19.3% of outstanding investments of £421.3m as overnight money and 21.4% maturing within 1-3 months, 22.6% maturing within 3-6 months, 28.5% maturing within 6-9 months, 2.4% maturing within 9-12 months and 6% to mature after 12months.

3.10.10 The Weighted Average Time to Maturity for outstanding investment portfolio is 176 days. This is the average time, in days, from reporting date until the portfolio matures, weighted by principal amount.

3.11 **The Council's Capital Position (Prudential Indicators)**

3.11.1 Prudential Indicator for Capital Expenditure - This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at February Council. The programme has been revised to take account of updated profiles; new schemes approved in-year and new capital grant receipts.

Capital Expenditure by Service	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
Adult Services	*3.793*	*0.411*
Children's services	*22.611*	*13.872*
Building Schools for the Future	*0.223*	*1.014*
Communities, Localities and Culture	*14.560*	*14.094*
Development & Renewal (Excluding HRA)	*3.230*	*3.352*
Housing	*5.991*	*125.780*
Corporate General Fund Provision for Schemes under development	*12.000*	*2.504*
Total Non - HRA	50.408	37.472
HRA	121.564	123.556
Total	**171.972**	**161.028**

3.11.2 **Changes to the Financing of the Capital Programme**

The table below draws together the main strategic elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Capital Expenditure	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
Total Spend	**171.972**	**161.028**
Financed By:		

Capital receipts	10.159	12.724
Capital Grants, Developers & SC	84.756	118.326
Major Repairs Allowance	31.810	24.038
Capital Reserves	2.150	2.280
Revenue	10.258	2.299
Total Financing	**151.658**	**159.667**
Supported	0.000	0.000
Unsupported	32.839	1.361
Total Borrowing Need	**32.839**	**1.361**

3.11.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary are detailed in the below table. The Capital Financing Requirement has been amended in line with the borrowing requirement to support the 2015/16 approved capital programme.

	2014/15 Actual £m	**2015/16 Original Estimate £m**	**2015/16 Revised Estimate £m**
Prudential Indicator – Capital Financing Requirement			
CFR – Non-HRA	157.842	168.877	157.841
CFR – HRA	69.675	91.479	71.036
Total CFR	227.517	260.356	228.036
Net movement in CFR		**32.839**	**1.360**
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	206.310	285.356	253.877
Other long term liabilities	39.410	38.472	38.472
Total debt 31 March	**245.720**	**323.828**	**292.349**

Limits to Borrowing Activity

3.11.4 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2014/15 Actual	**2015/16 Original Estimate**	**2015/16 Revised Estimate**

	£m	£m	£m
Gross borrowing	128.365	162.789	127.117
Less investments	385.900	300.000	300.000
Net borrowing / (Investments)	(257.535)	(137.211)	(172.883)
CFR (year - end position)	**227.517**	**260.356**	**228.877**

3.11.5 The Corporate Director, Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

3.11.6 A further prudential indicator limits the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and can only be set and revised by Members. It reflects the level of borrowing which though not needed, could be afforded in the short term but unsustainable long term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2015/16 Original Indicator**	**2015/16 Revised Indicator**
Borrowing*	323.828	292.349
Headroom	20.000	20.000
Other long term liabilities	0.000	0.000
Total	**343.828**	**312.349**

* Includes PFI schemes and finance leases etc.

4 Current Development and Update

4.1 The Impact of Markets in Financial Instruments Derivatives (MIFID II)

4.1.1 The first Markets in Financial Instruments Directive (MiFID) was adopted in April 2004 and came into force in November 2007. Its aim was to improve the competitiveness of EU financial markets by creating a single market for investment services and activities, and ensuring a high degree of harmonised protection for investors in financial instruments, such as shares, bonds, derivatives and various structured products. Under the current regulations LGPS funds are classified as professional investors enabling them to undertake transactions in a wide range of investments including complex ones such as hedge funds, private equity and property.

4.1.2 MiFID II is a wide-ranging EU regulation designed to improve investor protection and make financial markets safer and more transparent. It replaces MiFID and comes into effect on 3 January 2017 for all investment firms. It imposes more stringent transaction reporting and fee and charges disclosure rules on investment managers, and enforces better product governance to ensure that products are only sold to suitable investors. Retail investors can buy investments traded on public markets. But restrictions apply to complex and sophisticated investments, including those covered under the Alternative

Investment Fund Managers directive (AIFMD), which includes hedge funds, private equity, property, and commodities. Under MiFID II local authorities will be classified as retail investors.

4.1.3 Under MiFID II, all financial services firms such as banks, brokers, advisers and fund managers will have to treat Local Authorities (LA) and Local Government Pension Scheme (LGPS) funds in the same way they do individuals and small businesses. That includes ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. Whilst recognising that this is appropriate for retail investors it also involves lots more documentation and administration for both the firm and the client, to prove to the regulator that all the steps have been taken, and as evidence in case of alleged mis-selling. Further under MiFID II, asset managers are not allowed to sell investments such as hedge funds, property and private equity to retail clients because of their complex nature.

4.1.4 LGPS Funds and LA will be able to go through an election process to be upgraded to professional clients but it will take time and will be onerous as they will have to prove to each asset manager that they meet the strict qualitative and quantitative criteria. These include showing the requisite experience, expertise and knowledge so the funds are capable of making their own investment decisions. Although managers carry the regulatory risk, it is the funds that will have to collate the information to prove they are professional clients.

4.1.5 The qualitative criteria under MiFID II are that Funds will have to demonstrate an 'adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved' This assessment 'should be performed in relation to the person authorised to carry out transactions on its behalf.'

4.1.6 The quantitative criteria - (2 of the following 3 must be satisfied):

- the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
- the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

4.1.7 The Local Government Association (LGA), DCLG, the Investment Association along with LGPS Funds are currently lobbying the Financial Conduct Authority to try to find ways of lessening the impact on local authorities and in particular LGPS Funds of the new European Directive. In addition it is hoped that transition arrangements can be put in place to ensure that Funds aren't forced into a fire-sale of current holdings once the directive comes into force in

January 2017. A copy of the LGA paper issued to raise awareness of the issue to local authorities is attached as an appendix to this report for information. It is anticipated that the FCA will issue a consultation on the introduction of MiFID II and its impact on local authorities in early 2016. The FCA also presented to the London CIV Sectoral Joint Committee, which the Vice Chair of Pensions Committee attends outlining the issues for the Committee. A copy of the presentation given to the CIV is attached for information and sets out clearly the timeline of the introduction of the Directive and the issues arising.

4.1.8 With the move to pooling of local authority investments, the introduction of MiFID II could impact on how some of these vehicles are set up and the status that they would attract. The London CIV which the London Borough of Tower Hamlets Pension Fund has supported will meet the criteria of a professional investor given its FCA status as an authorised contractual scheme. However, whilst the London CIV will be classified as a Professional Investor it is unclear at this stage whether the CIV will have to undertake the same level of due diligence with its LGPS clients as a fund manager would do. In addition it is unclear whether some of the structure which could be put forward under the pooling consultation by LGPS funds would fall into the classification of professional investors.

4.1.9 At this stage the contents of this report are for information only, but to make the Audit Committee aware of the potential ramifications of the new EU directive and to note that this could have an impact on the Council's treasury function.

4.2 Changes in Credit Rating Methodology

4.2.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

4.2.2 In keeping with the agencies' new methodologies, the credit element of the Council's treasury adviser credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings.

4.2.3 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks.

4.2.4 Banks are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

5.1 The comments of the Corporate Director of Resources are incorporated in the report.

6. LEGAL COMMENTS

6.1 The Local Government Act 2003 provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

6.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the Local Government Act 2003. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

6.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to review performance against the strategies and policies it has adopted.

6.4 The Treasury Management Code requires as a minimum that there be a practice of regular reporting on treasury management activities and risks to the responsible committee and that these should be scrutinised by that committee. Under the Council's Constitution, the audit committee has the functions of monitoring the Council's risk management arrangements and making arrangements for the proper administration of the Council's affairs and for the proper stewardship of public funds.

6.5 When discharging its treasury management functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information is contained in section 15 of the report relevant to these considerations.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 Interest on the Council's cash flow has historically contributed significantly towards the budget. This Council's ability to deliver its various functions, to meet its Community Plan targets and to do so in accordance with its obligations under the Equality Act 2010 may thus be enhanced by sound treasury management.

8. BEST VALUE (BV) IMPLICATIONS

8.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

8.2 For example, investment returns exceeded the LIBID benchmark up to the end of September 2015 and the treasury function operated within budget for financial year 2015/16.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There are no Sustainable Actions for A Greener Environment implications.

10. RISK MANAGEMENT IMPLICATIONS

10.1 Any form of investment inevitably involves a degree of risk. To minimise risk the investment strategy has restricted exposure of council cash balances to UK backed banks or institutions with the highest short term rating or strong long term rating.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

[None]

Appendices

Appendix 1: Borrowing Strategy 2015/16
Appendix 2: Minimum Revenue Provision Policy Statement 2015/16
Appendix 3: Creditworthiness Policy 2015/16
Appendix 4: Definition of Credit Ratings
Appendix 5: Investment Portfolio as at 30th September 2015
Appendix 6: 2015-16 Prudential and Treasury Management Indicators
Appendix 7: Counterparty List
Appendix 8: Glossary

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

Capita Treasury Advisory Services - Investment Reports & Benchmarking club report

Officer contact details for documents:

Bola Tobun   Ext. 4733 Mulberry Place, 3rd Floor

Appendix 1: BORROWING STRATEGY

1. The Council will continue to borrow for the following purposes where it is deemed affordable, sustainable and prudent to do so:
    - Financing of Capital Expenditure
    - Repayment of Maturing Debt (net of Minimum Revenue Provision)
    - Short Term Cash Flow Financing
2. The Acting Corporate Director, Resources or in his absence the Service Head, Financial Services, Risk and Accountability under delegated powers will determine the timing, term, type and rate of new borrowing to take into account factors such as:
    - Expected movements in interest rates
    - Current maturity profile
    - The impact of borrowing on the council's Medium Term Financial Plan
    - Approved prudential indicators and limits
3. Officers will continue to monitor interest rate movements closely and adopt a pragmatic approach to changing circumstances. For example, the following potential scenarios would require a reappraisal of strategy:
    - A significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap
    - A significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

BORROWING IN ADVANCE OF NEED

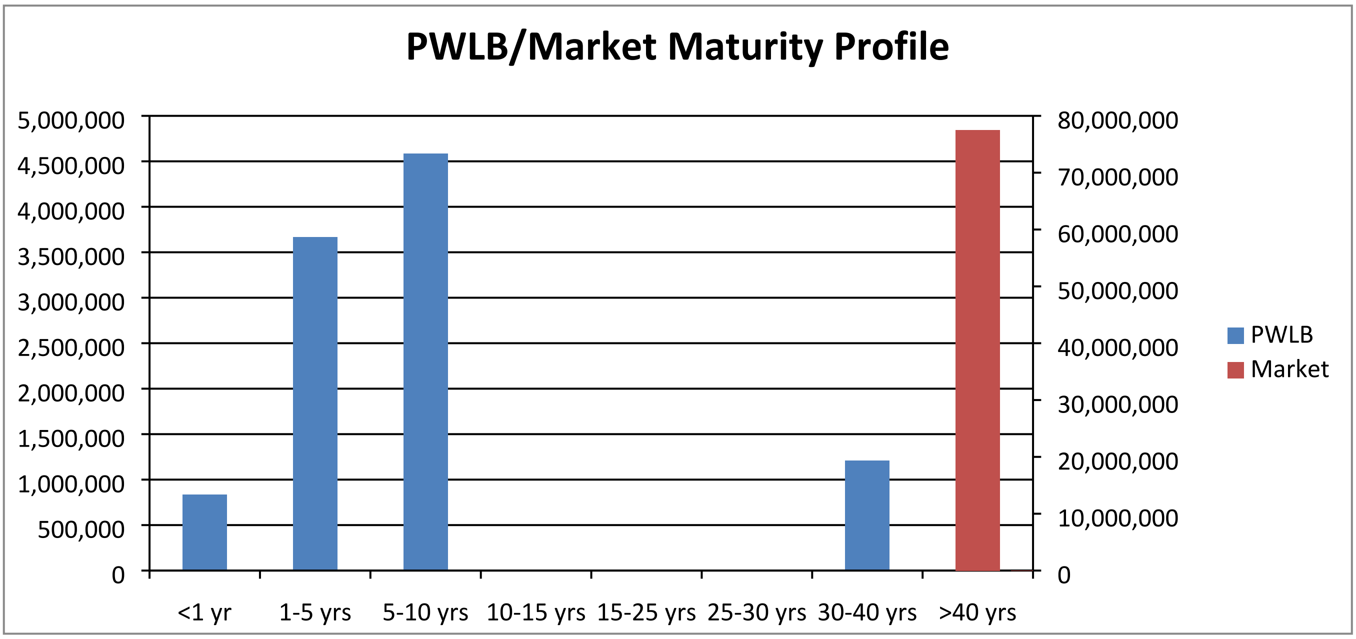
4. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
5. In determining whether borrowing will be undertaken in advance of need the Council will;
    - ensure that there is a clear link between the capital programme and maturity profile of existing debt portfolio that supports the need to take funding in advance of need
    - ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

DEBT RESCHEDULING

6. The Interim Head of Finance - Resources will continue to consider options to reschedule and restructure the Council's debt portfolio, having due regard for the broad impact of such exercises on the following:
    - The maturity profile – council will only undertake debt restructuring where it benefits the maturity profile
    - On-going revenue savings will be achieved
    - The effect on the HRA
    - The impact of premiums and discounts has been fully considered; and
    - The impact on prudential indicators.
7. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
8. All rescheduling will be reported to the Council, at the earliest meeting following its action.

<u>The Maturity Profile of External Borrowing as at 30th September 2015</u>



Appendix 2: MINIMUM REVENUE PROVISION POLICY STATEMENT

1 The Council is required to provide an annual amount in its revenue budget to provide for the repayment of the debt it has incurred to finance its General Fund capital investment. The calculation of this sum termed the Minimum Revenue Provision (MRP) was previously prescribed by the Government.

2 The Department of Communities and Local Government (DCLG) now require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.

3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Governments Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.

4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.

11 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.

12 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:

- Option 1 (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
- Option 2 (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.

13 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.

14 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.

15 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-

- Option 3 (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.

- Option 4 (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

16 It is recommended that option 3 is adopted for unsupported borrowing.

17 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent. It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

Appendix 3: Creditworthiness Policy

1 Credit rating information is supplied by Capita Asset Services, our treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is used to update the Council's counterparty list immediately.

2 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

3 The Corporate Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used. 4

4 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, and the institution will fall outside the lending criteria.

5 Credit rating information is supplied by Capita Asset Services, the Council treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. This does not apply to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.

6 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks with good credit quality – the Council will only use banks which:
    i. are UK banks; and/or

   ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

   And have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

   i. Short Term – 'F1'

   ii. Long Term – 'A'

   (N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank above.
- The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Unrated/Challengers Banks – The council will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
   I. The "RAG" framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
   II. The "RAG" (Red, Amber or Green) indicator framework is generally used to identify the strength of a company's financial numbers.
   III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- Building societies - The Council will *use* all building societies in the UK which:
   i. Meet the ratings for banks outlined above;
   ii. Have assets in excess of £1.5bn;

   or meet both criteria.
- Money market funds – AAA
- Enhanced money market funds (EMMFs) – AAA
- Certificates of Deposits
- Corporate Bonds
- Covered Bonds

- UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))
- Local authorities, parish councils, Police and Fire Authorities
- Supranational institutions

Agency	Long-Term	Short-Term
Fitch	A	F1
Moody's	A2	P-1
Standard & Poor's	A	A-2
Sovereign Rating	AAA	
Money Market Fund	AAA	

7 **Country and Product considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- No more than a maximum amount of £75m or 25% of the investments portfolio will be placed with any individual non-UK country with AAA sovereign rating at any time;
- limits in place above will apply to a group of institutions within a non UK country;
- Product limits will be monitored regularly for appropriateness.

8 Use of additional information other than credit ratings – Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

9 **Specified Investments**: It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high credit' quality criteria where applicable. The Council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining 'high credit rating' as being F1 Fitch short-term and A long-term credit rating or equivalent Moody's or Standard and Poor's rating.

	Fitch Long term Rating (or equivalent)	**Money Limit**	**Time Limit**
Term Deposits (Banks - higher quality)	*Short-term F1+, Long-term AA-*	£30m	3yrs
Term Deposits (Banks - medium quality)	*Short-term F1, Long-term A+*	£25m	2yrs
Term Deposits (Banks - lower quality)	*Short-term F1, Long-term A*	£20m	1yr
Banks - part nationalised (per group)	N/A	£70m	1yr
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	N/A	unlimited	6 months
Local authorities	N/A	£20m	1yr
Treasury Bills	Long Term AAA	No Limit	1yr
UK Government Gilts	N/A	No Limit	1yr
Covered Bonds	Long Term AAA	£25m	1yr
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1yr
Certificates of Deposits	As Term Deposits above	As Term Deposits above	As Term Deposits above
Corporate Bonds	As Term Deposits above	As Term Deposits above	As Term Deposits above
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
	Fund rating	**Money Limit (per fund)**	**Time Limit**
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAA/V1	£25m	liquid
Cash Funds	AAA	£25m	liquid
Bond Funds	AAA	£25m	liquid

Non-Specified Investments:

18 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums that can be Invested for more than 1 year and can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.

19 Unrated banks, building societies and other institutions are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

20 The “RAG” (Red, Amber or Green) framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities with unrated institutions as deemed appropriate.

21 The “RAG” indicator framework is generally used to identify the strength of a company’s financial numbers. For example, all for the financial sector there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.

22 In assessing investment opportunities with unrated UK Banks, Building Societies and other Institutions the Council will look at the following metrics:

Ratio	Red	Amber	Green
Total Debt / Equity	<5	5-10	>10
Net Interest Margin	<0	0-1.5	>1.5
CET1 Ratio	<9	9-13%	>13%
Capital Adequacy Ratio	<0	10-12%	>12%
Total Capital Ratio	<8	8-14%	>14%

Ratio	Red	Amber	Green
Tangible Equity Ratio	<3	3-5	>5
Loan to Deposit Ratio	>110	100-110	<100
Non-performing loan Ratio	>5	2-5	<2
Return on Equity	<0%	0-10%	>10%
Dividend yield	0-8%	8-12%	>12%
P/E Ratio	<0	0-10	>10%

16 Whilst the Council look for as many ‘greens’ as possible, a balance of ratios that indicate long-term solvency and ability for the institution to service and repay debts is most important.

Minimum Criteria for considering Unrated Institions with money and time limits:

	Institution Assets Value	Money Limit	Time Limit
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.0bn	£3m £5m	6 months 12 months

17 It is considered that the maximum nominal value of overall investments that the Council should hold for more than 1 year and less than 5 years is £50m. (Investments with maturity over a year) The prudential indicator figure of £50m is therefore recommended.

The credit criteria for non-specified investments are detailed in the table below:

Institution	Fitch Long term Rating (or Equivalent)	Time Limit	Monetary Limit
Term deposits – Banks and Building Societies	Short-term F1+, Long-term AA-	3 years	£25m
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1+, Long-term AA-	3 years	£25m
Part Nationalised or Wholly Owned UK Banks	N/A	3 years	£25m
Certificates of Deposits	Short-term F1+, Long-term AA-	3 years	£25m
Corporate Bonds	Short-term F1+, Long-term AA-	5 years	£25m
Covered Bonds	Long Term AAA	5 years	£25m
UK Government Gilts	N/A	5 years	100% of Investment Portfolio

18 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institutions will be removed from the list, by officers as deemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 10/11/2015.

Appendix 4: Definition of Credit Ratings

Short-term Ratings

Rating	
F1	**Highest credit quality.** Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	**Good credit quality.** A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	**Fair credit quality.** The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Long-term Ratings

Rating	Current Definition
AAA	**Highest credit quality.** 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	**Very high credit quality.** 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	**High credit quality.** 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	**Good credit quality.** 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacities for timely payment of financial commitments are considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category

Individual Ratings

Rating	
A	A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.
B	A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.
C	An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.
D	A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.
E	A bank with very serious problems, which either requires or is likely to require external support.

Appendix 5 – Investment Portfolio as at 30th September 2015

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	BNP Paribas MMF		**MMF**	25.00	
	Deutsche MMF		**MMF**	21.90	
	Federated MMF		**MMF**	9.40	
	IGNIS MMF		**MMF**	25.00	
	SUB TOTAL			**81.30**	
< 1 Month	Standard Chartered Bank (CDs)	01/04/2015	01/10/2015	10.00	0.68%**
	Development Bank of Singapore	29/06/2015	29/10/2015	10.00	55.00%
1 - 3 Months	Helaba	12/05/2015	12/11/2015	5.00	0.74%
	Australia & Newzealand Bank	12/08/2015	12/11/2015	10.00	0.54%
	Lloyds Banking Group	13/11/2014	13/11/2015	5.00	1.00%
	DZ Bank	26/08/2015	26/11/2015	5.00	0.55%
	DZ Bank	28/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	29/05/2015	30/11/2015	5.00	0.64%
	DZ Bank	01/06/2015	01/12/2015	5.00	0.64%
	Commonwealth Bank of Australia	03/09/2015	03/12/2015	5.00	0.53%
	Skandinaviska Enskilda Banken	03/06/2015	03/12/2015	10.00	0.61%
	Lloyds Banking Group	04/12/2014	04/12/2015	5.00	1.00%
	Australia & Newzealand Bank	12/08/2015	14/12/2015	10.00	0.55%
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	Skandinaviska Enskilda Banken	03/07/2015	03/01/2016	5.00	0.64%
	Development Bank of Singapore	07/07/2015	07/01/2016	5.00	0.62%
	Commonwealth Bank of Australia	03/09/2015	03/02/2016	5.00	0.58%
	Lloyds Banking Group	04/02/2015	04/02/2016	5.00	1.00%
	Development Bank of Singapore	10/08/2015	10/02/2016	10.00	0.61%
	National Australia Bank	16/02/2015	16/02/2016	10.00	0.61% *
	Development Bank of Singapore	17/08/2015	17/02/2016	5.00	0.61%
	Royal Bank of Scotland	27/02/2013	26/02/2016	10.00	1.15%
	Helaba	26/05/2015	26/02/2016	5.00	0.86%
	Commonwealth Bank of Australia	03/09/2015	03/03/2016	5.00	0.62%
	Commonwealth Bank of Australia	14/09/2015	14/03/2016	10.00	0.64%
6 - 9 Months	DZ Bank	26/08/2015	26/02/2015	5.00	0.66%
	Lloyds Banking Group	04/03/2015	04/03/2016	5.00	1.00%
	Lloyds Banking Group	05/03/2015	07/03/2016	10.00	1.00%
	Royal Bank of Scotland	20/03/2014	20/03/2016	5.00	1.25%
	Standard Chartered Bank (CDs)	01/04/2015	30/03/2016	10.00	0.86%**
	Lloyds Banking Group	07/04/2015	07/04/2016	5.00	1.00%
	Lloyds Banking Group	10/04/2015	08/04/2016	5.00	1.00%
	Lloyds Banking Group	13/04/2015	12/04/2016	5.00	1.00%
	Nationwide Building Society	13/04/2015	12/04/2016	10.00	0.90%
	Lloyds Banking Group	15/04/2015	14/04/2016	5.00	1.00%
	Nationwide Building Society	16/04/2015	15/04/2016	5.00	0.90%
	Barclays	16/04/2015	15/04/2016	10.00	0.92%
	Lloyds Banking Group	17/04/2015	15/04/2016	10.00	1.00%
	Nationwide Building Society	24/04/2015	22/04/2016	5.00	0.90%
	Nottingham Building Society	29/04/2015	28/04/2016	5.00	1.00%
	Newcastle Building Society	29/04/2015	28/04/2016	5.00	1.10%
	Lloyds Banking Group	29/04/2015	29/04/2016	5.00	1.00%
	Helaba	01/05/2015	03/05/2016	10.00	0.94%
9 - 12 Months	Commonwealth Bank of Australia	05/08/2015	05/08/2016	5.00	0.84%

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
	Lloyds Banking Group	13/08/2015	12/08/2016	5.00	1.00%
> 12 Months	Royal Bank of Scotland	10/01/2014	09/01/2017	5.00	1.74% *
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.420% **
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.420% **
	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20% *
	Royal Bank of Scotland	30/04/2015	30/04/2018	5.00	0.90% *
	SUB TOTAL			**340.00**	
	TOTAL			**421.30**	

* This is a structured deal, the terms of which could change during its tenor.

** This is certificate of Deposits

Appendix 6 – 2015-16 Prudential and Treasury Management Indicators

Prudential Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m
Capital Expenditure					
Non – HRA	56.238	50.408	37.472	39.482	10.465
HRA	76.852	121.564	123.556	102.637	25.317
TOTAL	**133.090**	**171.972**	**161.028**	**142.119**	**35.782**
Ratio of Financing Costs To Net Revenue Stream					
Non – HRA	2.39%	2.82%	2.68%	2.86%	2.98%
HRA	3.70%	4.85%	3.74%	5.51%	5.59%
	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement					
Gross Debt	136.700	162.789	128.005	159.979	157.416
Capital Financing Requirement	227.517	260.356	228.877	264.192	265.786
Over/(Under) Borrowing	(90.817)	(97.567)	(100.872)	(104.213)	(108.370)
In Year Capital Financing Requirement					
Non – HRA	0.000		(0.001)	(0.000)	0.000
HRA	0.000	21.804	1.361	35.315	1.594
TOTAL	**0.000**	**21.804**	**1.360**	**35.315**	**1.594**
Capital Financing Requirement as at 31 March					
Non - HRA	157.842	168.877	157.841	157.841	157.841
HRA	69.675	91.479	71.036	106.351	107.945
TOTAL	**227.517**	**260.356**	**228.877**	**264.192**	**265.786**
Incremental Impact of Financing Costs (£)					
Increase in Council Tax (band D) per annum	0.000	0.908	1.260	2.446	2.375
Increase in average housing rent per week	0.000	0.000	0.000	8.097	0.190

Treasury Management Indicators	2014/15	2015/16	2015/16	2016/17	2017/18
	Actual	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m
Authorised Limit For External Debt -					
Borrowing & Other long term liabilities	245.720	323.828	292.349	326.700	327.089
Headroom	20.000	20.000	20.000	20.000	20.000
TOTAL	**265.720**	**343.828**	**312.349**	**346.700**	**347.089**
Operational Boundary For External Debt -					
Borrowing	206.310	285.356	253.877	289.192	290.786
Other long term liabilities	39.410	38.472	38.472	37.508	36.303
TOTAL	**245.720**	**323.828**	**292.349**	**326.700**	**327.089**
Gross Borrowing	**136.700**	**162.789**	**127.117**	**159.979**	**157.416**
HRA Debt Limit*	**184.381**	**192.000**	**192.000**	**192.000**	**192.000**
Upper Limit For Fixed Interest Rate Exposure					
Net principal re fixed rate borrowing / investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit For Variable Rate Exposure					
Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**

Maturity structure of new fixed rate borrowing during 2015/16	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

ppendix 7
st of Approved Counterparties for Lending for London Borough of Tower Hamlets.

Any values highlighted in yellow have undergone a change in the past 14 days.

Counterparty		Fitch Ratings			Moodys Ratings			S&P Ratings					
			Long Term	Short Term		Long Term	Short Term		Long Term	Short Term	Monetary Limit	Duration	Note
Australia		SB	AAA		SB	Aaa		SB	AAA				
Banks	Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Commonwealth Bank of Australia	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Macquarie Bank Ltd.	SB	A	F1	SB	A2	P-1	SB	A	A-1	20m	1 Years	
	National Australia Bank Ltd.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Westpac Banking Corp.	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Canada		SB	AAA		SB	Aaa		SB	AAA				
Banks	Bank of Montreal	SB	AA-	F1+	NO	Aa3	P-1	NO	A+	A-1	25m	2 Years	
	Bank of Nova Scotia	SB	AA-	F1+	NW	Aa2	P-1	NO	A+	A-1	25m	2 Years	
	Canadian Imperial Bank of Commerce	SB	AA-	F1+	NO	Aa3	P-1	NO	A+	A-1	25m	2 Years	
	National Bank of Canada	SB	A+	F1	NO	Aa3	P-1	NO	A	A-1	20m	1 Years	
	Royal Bank of Canada	SB	AA	F1+	NO	Aa3	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
	Toronto-Dominion Bank	SB	AA-	F1+	NO	Aa1	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
Denmark		SB	AAA		SB	Aaa		SB	AAA				
Banks	Danske A/S	SB	A	F1	SB	A2	P-1	SB	A	A-1	20m	1 Years	
Germany		SB	AAA		SB	Aaa		SB	AAA				
Banks	DZ BANK AG Deutsche Zentral-Genossenschaftsbank	SB	AA-	F1+	PO	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Landesbank Berlin AG				PO	A1	P-1				25m	2 Years	
	Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+	PO	A1	P-1	SB	A	A-1	20m	1 Years	
	Landwirtschaftliche Rentenbank	SB	AAA	F1+	SB	Aaa	P-1	SB	AAA	A-1+	25m	3 Years	£30m/
	NRW.BANK	SB	AAA	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Netherlands		SB	AAA		SB	Aaa		SB	AAA				
Banks	ABN AMRO Bank N.V.	SB	A	F1	SB	A2	P-1	NO	A	A-1	20m	1 Years	
	Bank Nederlandse Gemeenten N.V.	SB	AA+	F1+	SB	Aaa	P-1	PO	AA+	A-1+	25m	3 Years	£30m/

	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	SB	AA-	F1+	SB	Aa2	P-1	NO	A+	A-1	25m	2 Years	
	ING Bank N.V.	SB	A	F1	SB	A1	P-1	SB	A	A-1	20m	1 Years	
	Nederlandse Waterschapsbank N.V.				SB	Aaa	P-1	PO	AA+	A-1+	25m	3 Years	£30m/
Singapore		SB	AAA		SB	Aaa		SB	AAA				
Banks	DBS Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	United Overseas Bank Ltd.	SB	AA-	F1+	SB	Aa1	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
Sweden		SB	AAA		SB	Aaa		SB	AAA				
Banks	Nordea Bank AB	SB	AA-	F1+	SB	Aa3	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
	Skandinaviska Enskilda Banken AB	PO	A+	F1	SB	Aa3	P-1	NO	A+	A-1	25m	2 Years	
	Svenska Handelsbanken AB	SB	AA-	F1+	SB	Aa2	P-1	NO	AA-	A-1+	25m	3 Years	£30m/
	Swedbank AB	PO	A+	F1	SB	Aa3	P-1	SB	A+	A-1	25m	2 Years	
Switzerland		SB	AAA		SB	Aaa		SB	AAA				
Banks	Credit Suisse AG	PO	A	F1	NW	Aa3	P-1	SB	A	A-1	20m	1 Years	
	UBS AG	SB	A	F1	PW	A1	P-1	SB	A	A-1	20m	1 Years	
United Kingdom		SB	AA+		SB	Aa1		NO	AAA				
AAA rated and Government backed securities	Debt Management Office											6 Months	(M) Moneta Limit unlimi
Banks	Bank of Scotland PLC	SB	A+	F1	PO	A1	P-1	SB	A	A-1	20m	1 Years	
	Close Brothers Ltd	SB	A	F1	SB	Aa3	P-1				20m	1 Years	
	Co-operative Bank PLC (The)	SB	B	B	PO	Caa2	NP				25m	1 Days	(M) Ov Ban
	Goldman Sachs International Bank	PO	A	F1	SB	A1	P-1	PW	A	A-1	20m	1 Years	
	HSBC Bank PLC	SB	AA-	F1+	SB	Aa2	P-1	SB	AA-	A-1+	25m	3 Years	£30m/
	Lloyds Bank Plc	SB	A+	F1	PO	A1	P-1	SB	A	A-1	20m	1 Years	
	Santander UK PLC	PO	A	F1	SB	A1	P-1	NO	A	A-1	20m	1 Years	
	Standard Chartered Bank	NO	A+	F1	NW	Aa2	P-1	SB	A+	A-1	25m	2 Years	
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A	F1	SB	A1	P-1	SB	A	A-1	20m	1 Years	
	UBS Ltd.	SB	A	F1	PW	A2	P-1	SB	A	A-1	20m	1 Years	
	Ulster Bank Ltd	SB	BBB+	F2	SB	A3	P-2	SB	BBB	A-2	25m	3 Years	(M) £2 Grou (£70m Year
Building Society	Coventry Building Society	SB	A	F1	PO	A2	P-1				20m	1 Years	

	Cumberland Building Society													3m	6 Months	
	Leeds Building Society	SB	A-		F1	SB	A2		P-1					5m	12 Months	
	Nationwide Building Society	SB	A		F1	SB	A1		P-1	SB	A		A-1	20m	1 Years	
	Newcastle Building Society	SB	BB+		B									5m	12 Months	
	Nottingham Building Society					SB	Baa1		P-2					5m	12 Months	
	Principality Building Society	SB	BBB+		F2	PO	Baa3		P-3					5m	12 Months	
	Progressive Building Society													3m	6 Months	
	Skipton Building Society	SB	BBB+		F2	SB	Baa2		P-2					5m	12 Months	
	West Bromwich Building Society					SB	B1		NP					5m	12 Months	
	Yorkshire Building Society	SB	A-		F1	PO	A3		P-2					5m	12 Months	
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+		F2	SB	A3		P-2	SB	BBB+		A-2	25m	3 Years	(M) £2 Grou (£70m Year
	The Royal Bank of Scotland Plc	SB	BBB+		F2	SB	A3		P-2	SB	BBB+		A-2	25m	3 Years	(M) £2 Grou (£70m Year

Advisory notes:

Local Authorities - £20 Million per LA

Money Market Funds- £25 Million per Fund

Standard Banks 3 years - £25 Million or 1 year - £30 Million

Part Nationalised Banks 3 years - £25 Million or 1 year - £70 Million

(M) = Manually added counterparty. If a rating changes for this institution it will not alter its status on the counterparty list, or limits assigned to it.

Appendix 8 – Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires borrowing to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	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.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gross domestic product (GDP)	Gross domestic product (GDP) is a measure of the size of an economy. It is defined as "an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs)" by the OECD. GDP estimates are commonly used to measure the economic performance of a whole country or region, but can also measure the relative contribution of an industry sector.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	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.
Money Market Fund (MMF)	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.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
The Organisation for Economic Co-operation and Development (OECD)	The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 countries, founded in 1961 to stimulate economic progress and world trade. It is a forum of countries describing themselves as committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identify good practices and coordinate domestic and international policies of its members.
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.
Specified Investments	Investments that meet the Council's high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds

	are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.