Annex A

London Borough of Tower Hamlets

Annual Treasury Management Review
2016/17

Contents

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing 2016/17

1.1 The Council undertakes capital expenditure on long-term assets.

1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m General Fund	2015/16 Actual	2016/17 Estimate	2016/17 Actual
Capital expenditure	**26.620**	**89.475**	**28.621**
Financed in year	26.475	89.325	26.525
Unfinanced capital expenditure	**0.145**	**0.150**	**2.096**

£m HRA	2015/16 Actual	2016/17 Estimate	2016/17 Actual
Capital expenditure	**66.359**	**138.315**	**51.269**
Financed in year	66.359	125.455	51.269
Unfinanced capital expenditure	**0.000**	**12.860**	**0.000**

2. The Council's Overall Borrowing Need

2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2016/17 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.3 The Council's 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2016/17 on 24/02/2016.

2.4 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR (£m): General Fund	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Opening balance	192.943	187.005	187.005
Add unfinanced capital expenditure (as above)	0.145	7.150	2.096
Less MRP/VRP*	(7.084)	(5.000)	(7.097)
Less PFI & finance lease repayments		(2.000)	15.430
Closing balance	187.005	187.155	**197.434**

CFR (£m): HRA	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Opening balance	69.675	75.583	75.583
Add unfinanced capital expenditure (as above)	5.991	12.860	9.190
Less VRP*			
Less PFI & finance lease repayments	(0.083)		(0.504)
Closing balance	75.583	88.443	**84.269**

2.7 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensured that its gross external borrowing does not exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next financial year. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2016/17. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Gross borrowing position	£123.723m	£132.106m	£121.192m
CFR	£262.588m	£275.598m	£281.703m

2.8 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

2.9 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. **For the reporting financial year the boundaries were not breached.**

2.10 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17
Authorised limit	£307.588m
Maximum gross borrowing position	£123.723m
Operational boundary	£287.588m
Financing costs as a proportion of net revenue stream	0.030%

3. Treasury Position as at 31 March 2017

3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2016/17 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	31 March 2016 Principal	Rate of Return	31 March 2017 Principal	Rate of Return
Fixed rate Funding				
-PWLB	£10.325m	7.10%	£8.436m	6.64%
-Market	£13.000m	4.37%	£13.000m	4.37%
Total Fixed	£23.325m	5.58%	£23.436m	5.26%
Variable rate Funding				
-PWLB	-	-	-	-
-Market	£64.500m	4.32%	£64.500m	4.32%
Total Variable	£64.500m	4.32%	£64.500m	4.32%
Total debt	***£87.825m***	***4.65%***	***£85.936m***	***4.55%***

	31 March 2016 Principal	Rate/ Return	31 March 2017 Principal	Rate/ Return
Total debt	*£87.825m*	*4.65%*	***£85.936m***	***4.55%***
CFR	*£262.588m*		***£281.703m***	
Over / (under) borrowing	*(£174.763m)*		***(£195.767m)***	
Investments:				
In house	£370.5m	0.78%	£447.3m	0.64%
External managers	£0.000m		£0.000m	
Total investments	***£370.5m***	***0.78%***	***£447.3m***	***0.64%***

The maturity structure of the debt portfolio was as follows:

	31 March 2016 Actual	2016/17 original limits %	31 March 2017 Actual	31 March 2017 Actual
Under 12 months	£1.889m	10%	£0.970m	11.29%
12 months and within 24 months	£1.639m	30%	£1.673m	1.95%
24 months and within 5 years	£2.763m	40%	£3.421m	3.98%
5 years and within 10 years	£2.825m	80%	£1.163m	1.35%
Over 10 years	£78.209m	100%	£78.209m	91.0%

The maturity structure of the investment portfolio was as follows:

	2015/16 Actual £000	2016/17 Original £000	31 March 2017 Actual £000
Investments			
Longer than 1 year	£20,000	£50,000	£15,000
Under 1 year	£350,500	£300,000	£432,300
Total	£350,500	£350,000	£447,300

4. The Strategy for 2016/17

4.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

4.3 The actual movement in gilt yields meant that the general trend in PWLB rates during 2016/17 was an increase in rates during the first quarter followed by marked bouts of sharp volatility since July 2015 but with an overall dominant trend for rates to fall to historically low levels by the end of the year.

5. The Economy and Interest Rates

5.1 The two major landmark events that had a significant influence on financial markets in 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019.

5.2 The Monetary Policy Committee (MPC) at its 4 August meeting, cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

5.3 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the

MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

5.4 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

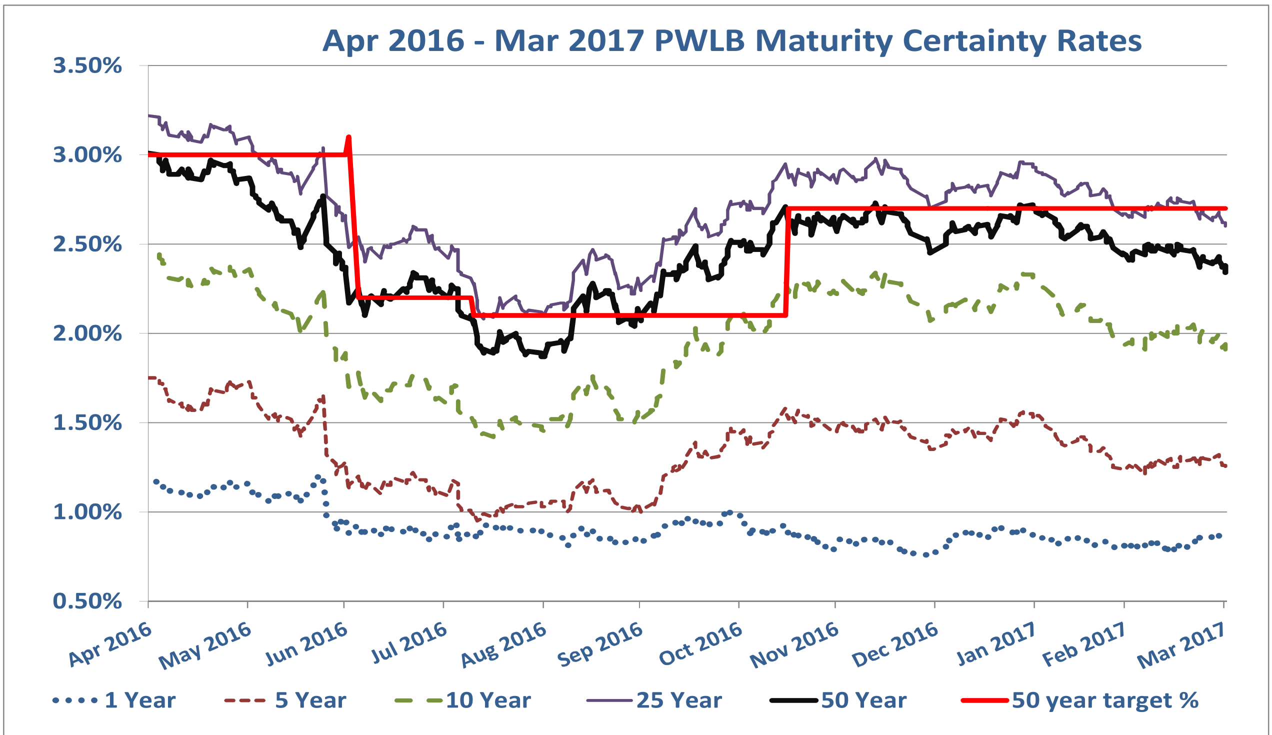
5.5 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

5.6 During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

5.7 The strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 24/02/2016 was subject to a revision during the year due to large amount of cash balance and appalling investments rate as a consequence of revision of base rate from 0.50% to 0.25% after the E.U referendum. There was an amendment at the Full Council meeting of September 2016, to the Council Investment Strategy to increase the monetary value from £50m to £100m for Long Term Investments and duration span from 3 years to 5 years limits.

6. Borrowing Rates in 2016/17

6.1 **PWLB certainty maturity borrowing rates** - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



7. Borrowing Outturn for 2016/17

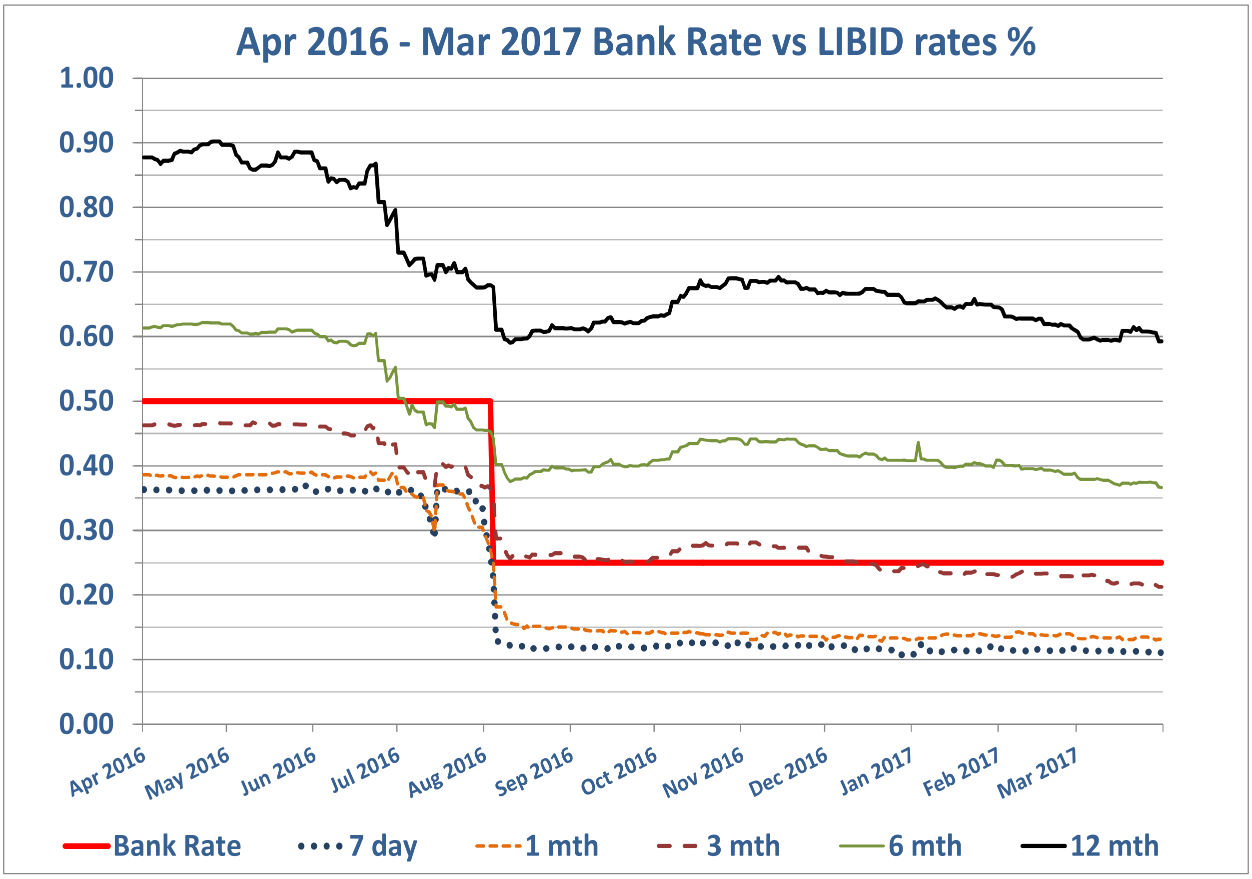
7.1 **Treasury Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

7.2 **Rescheduling -** No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.3 **Summary of debt transactions** – management of the debt portfolio resulted in a fall in the average interest rate of 0.06%, representing net General Fund savings of £80,000p.a.

8. Investment Rates in 2016/17

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



9. Investment Outturn for 2016/17

9.1 **Investment Policy** – the Council's investment policy is governed by CLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24/02/2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps.

9.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.3 **Investments held by the Council** - the Council held an outstanding balance of £447.3m, the internally managed funds earned £2.825m, with an average rate of return of 0.70% for this financial year 2016/17 on average cash balance of £404m. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20% for the reporting financial year. This compares with a budget assumption of £2.7m on average cash balance of £300m to earn an average rate of 0.90%.

9.4 **Pension Fund - Internal Cash Management** - Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cash flows requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

9.5 The Pension Fund cash balance is invests in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2016, which is delegated to the Corporate Director of Resources to manage on a day to day basis within set parameters.

9.6 At 31st March 2017, no outstanding cash investments of pension fund cash balance with the Council's treasury activity.

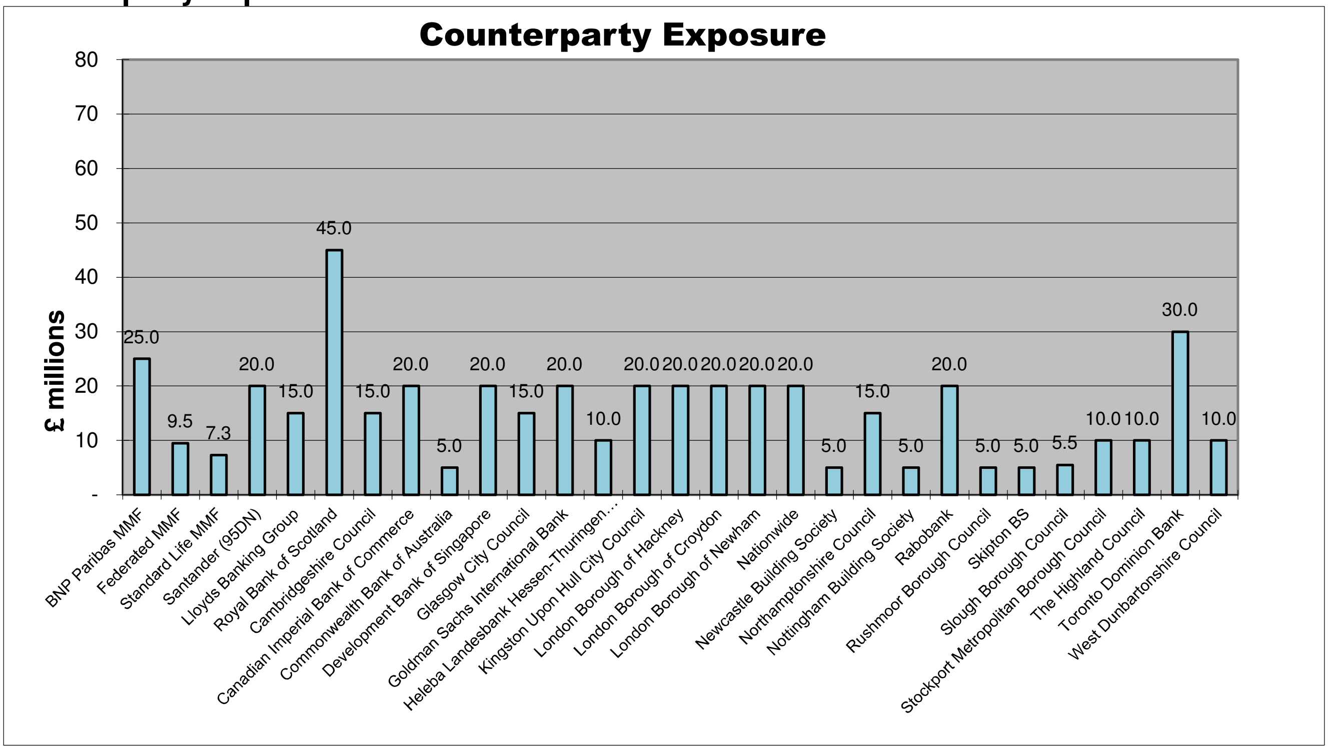
9.7 Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority.

Investment performance for 2016/17

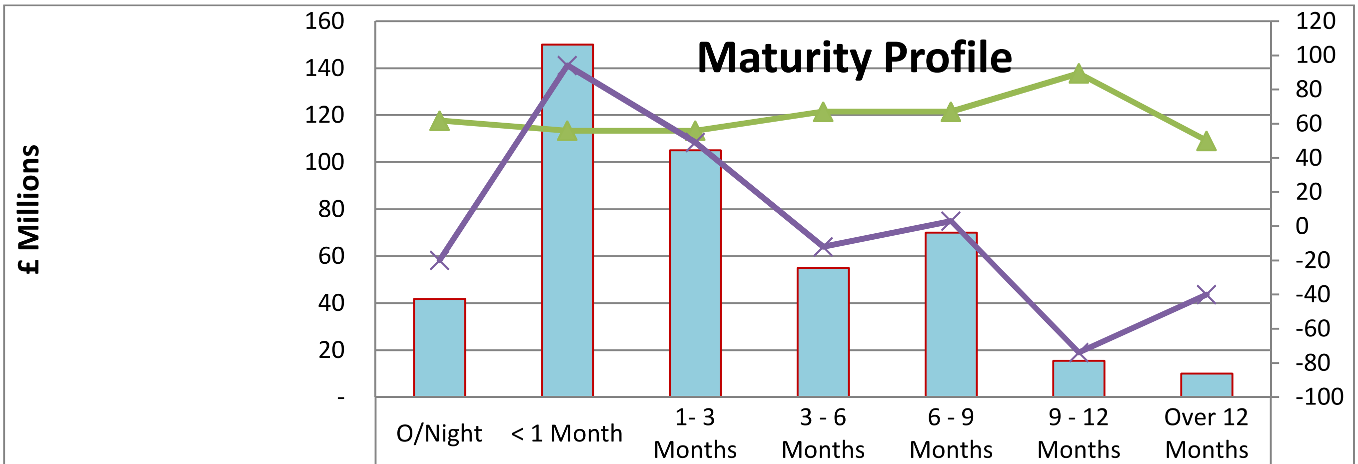
Period	LBTH Performance	Benchmark Return	Over/(Under) Performance
Full Year 2015/16	**0.78%**	**0.36%**	**0.42%**
Quarter 1 2016/17	0.78%	0.36%	0.42%
Quarter 2 2016/17	0.72%	0.12%	0.60%
Quarter 3 2016/17	0.65%	0.13%	0.52%
Quarter 4 2016/17	0.64%	0.13%	0.51%
Full Year 2016/17	**0.70%**	**0.20%**	**0.50%**

9.8 As illustrated above, the Council outperformed the benchmark by 50bps for this financial year. The Council's budgeted investment return for 2016/17 was £2.7m, based on average cash balance of £300m with rate on return on investment of 0.90%. The investment return for the year was some £125k above budget, at £2.825m; this is mainly due to substantial increase of average cash balance by some £100m above budgeted cash balance, coupled with appalling investment rates realised towards the second half of the financial year.

Counterparty Exposure



9.9 The counterparty exposure chart above shows the counterparty exposure that is deposits outstanding with authorised counterparties at 31 March 2017, of which 10.06% was with part-nationalised bank (RBS Groups).



	O/Night	< 1 Month	1- 3 Months	3 - 6 Months	6 - 9 Months	9 - 12 Months	Over 12 Months
£ millions	41.80	150.00	105.00	55.00	70.00	15.50	10.00
Portfolio Target £	61.83	55.91	55.91	67.10	67.10	89.46	50.00
Over/(Under) Target £	(20.03)	94.09	49.09	(12.10)	2.91	(73.96)	(40.00)

9.10 The maturity profile chart above illustrates the maturity structure of deposits at 31 March 2017; we have £41.8m as overnight deposits, and this is all Money Market Funds.

9.11 The Weighted Average Maturity (WAM) for outstanding investment (excluding MMF) is 127 days for the month of March and including MMF is 112 days. This is the average number of outstanding days to maturity of each deal from 31 March 2017.

10. Investment Benchmarking Club

10.1 The Council participates in a benchmarking club to enable officers to compare the Council's treasury management /investment returns against those of similar authorities. The model below shows the performance of benchmark club members given the various levels of risks taken as at 31 March 2017. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 21 local authorities. Tower Hamlets lies close to the expected return given the council's portfolio risk profile, which is placing deposits with institutions with the sovereign rate of AAA.

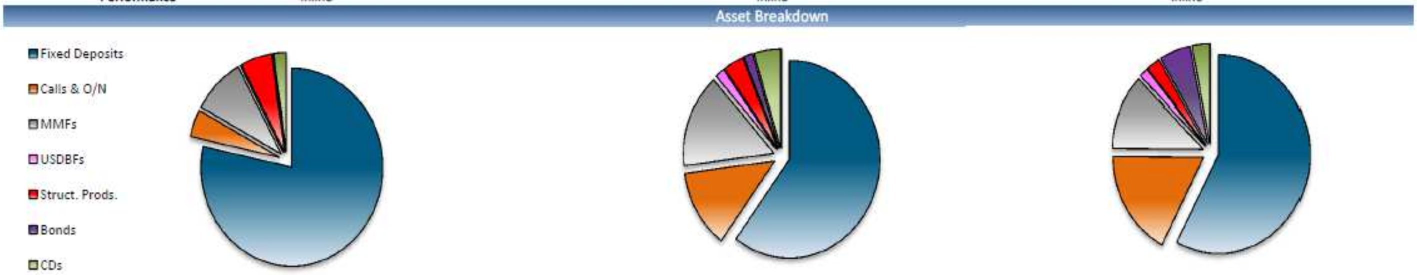
10.2 The below summary chart is comparing the council's investments portfolio with other London Boroughs as at 31st March 2017. The basic portfolio characteristics are investment returns and risks, asset allocations and maturity profiles were compared.

London Borough Of Tower Hamlets

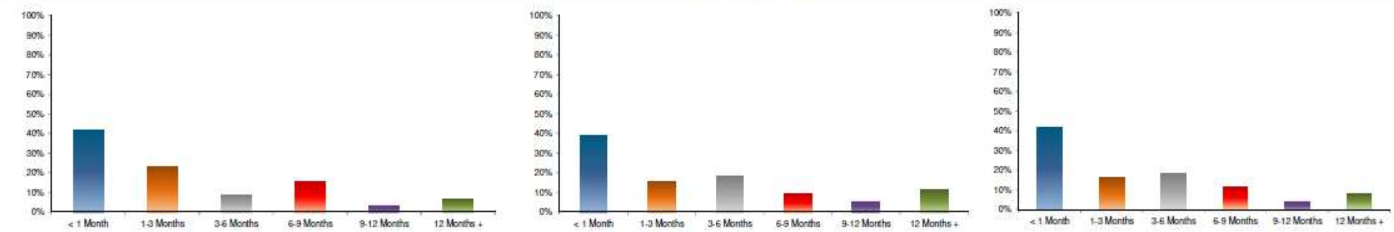
Summary Sheet

	London Borough Of Tower Hamlets	Benchmarking Group 2 (14)	London (21)
		Basic Portfolio Characteristics	
WARoR	0.62%	0.69%	0.59%
WAM	112	150	123
WATT	252	334	276
WA Credit Risk	2.77	3.19	3.06
Model WARoR	0.59%	0.68%	0.62%
Difference	0.03%	0.01%	-0.03%
Model Band	0.53% - 0.65%	0.62% - 0.75%	0.56% - 0.69%
Performance	Inline	Inline	Inline

Asset Breakdown



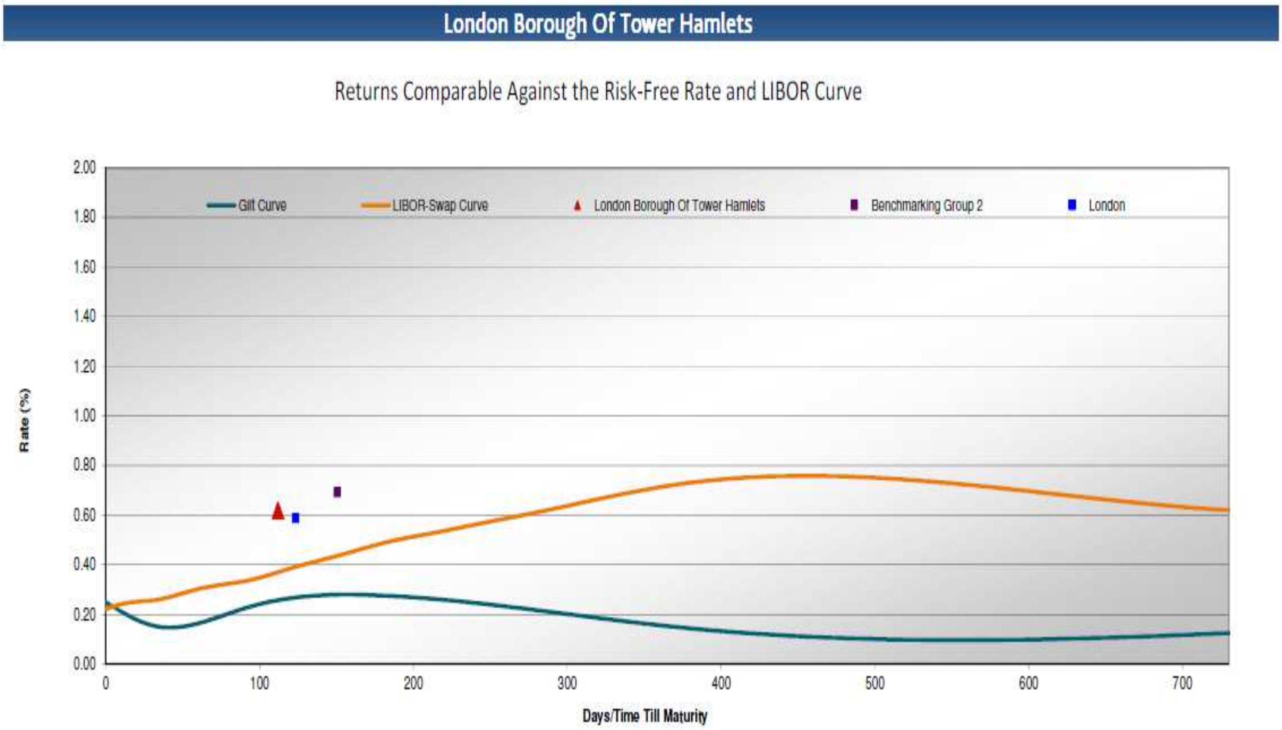
Maturity Profiles



10.3 The comparison demonstrated that Tower hamlets investment portfolio had a lower credit risk of 2.77 compared to the benchmark group average of 3.19. (To measure the credit worthiness of a portfolio, a credit risk scale of 1-5 is applied, a portfolio with 5 will be the riskiest investment portfolio full of BBB+ and below credit rating institutions and a portfolio with 1 will be an investment portfolio full of institutions with credit rating AAA+.

10.4 The investment return associated with the level of risk taken on our investment portfolio is within the range 0.53% - 0.65% and the portfolio delivered 0.62%, which is 0.03% above its model portfolio return of 0.59%.

1.5 The below graph compared benchmarking club member' returns against the risk-free return and LIBOR curve. It can be seen that the weighted average rate of return (WARoR) for the council investments is 0.62% compared to 0.59% for the London group and 0.69% for the benchmarking group as a whole. The return on LBTH investment is commensurate with the Council's risk appetite as set out in the Investment Strategy.



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference Gilt	Difference LIBOR-Swap	Model Bands	Performance
London Borough Of Tower Hamlets	0.62%	112	252	2.77	0.26%	0.37%	0.36%	0.25%	0.53% - 0.65%	Inline
Benchmarking Group 2	0.69%	150	334	3.19	0.28%	0.44%	0.41%	0.26%	0.62% - 0.75%	Inline
London	0.59%	123	276	3.06	0.27%	0.39%	0.32%	0.20%	0.56% - 0.69%	Inline

Appendix 1: Prudential and Treasury Indicators

Prudential Indicators	2015/16	2016/17	2016/17	2016/17	2017/18
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Actual**	**Estimate**
	£m	£m	£m	£m	£m
Capital Expenditure					
Non – HRA	26.620	89.475	77.362	28.621	75.586
HRA	66.359	138.315	92.991	51.269	92.430
TOTAL	**92.979**	**227.790**	**170.353**	**79.890**	**168.016**
Ratio of Financing Costs To Net Revenue Stream					
Non – HRA	0.19%	0.21%	0.02%	0.03%	0.04%
HRA	4.02%	4.00%	4.73%	4.45%	4.44%
	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement					
Gross Debt	123.723	132.106	133.661	121.192	117.960
Capital Financing Requirement	262.588	275.598	277.153	281.703	282.058
Over/(Under) Borrowing	(138.865)	(143.493)	(143.493)	(160.512)	(164.098)
In Year Capital Financing Requirement					
Non – HRA	(6.938)	0.150	0.355	10.429	0.355
HRA	5.908	12.860	14.210	8.686	0.000
TOTAL	**(1.030)**	**13.010**	**14.565**	**19.115**	**0.355**
Capital Financing Requirement as at 31 March					
Non - HRA	187.005	187.155	187.360	197.434	197.789
HRA	75.583	88.443	89.793	84.269	84.269
TOTAL	**262.588**	**275.598**	**277.153**	**281.703**	**282.058**
Incremental Impact of Financing Costs (£)					
Increase in Council Tax (band D) per annum	108.922	162.162	115.009	69.413	71.821
Increase in average housing rent per week	5.615	5.707	6.907	6.580	6.584

Treasury Management Indicators	2015/16	2016/17	2016/17	2016/17	2017/18
	Actual	**Original Estimate**	**Revised Estimate**	**Actual**	**Estimate**
	£m	£m	£m	£m	£m
Authorised Limit For External Debt -					
Borrowing & Other long term liabilities	287.588	300.598	302.153	306.703	307.058
Headroom	20.000	20.000	20.000	20.000	20.000
TOTAL	**307.588**	**320.598**	**322.153**	**326.703**	**327.058**
Operational Boundary For External Debt -					
Borrowing	250.079	264.294	265.849	270.399	272.101
Other long term liabilities	37.509	36.304	36.304	36.304	34.957
TOTAL	**287.588**	**300.598**	**302.153**	**306.703**	**307.058**
Gross Borrowing	**123.723**	**132.106**	**133.661**	**121.192**	**117.960**
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**	**£100m**	**£100m**	**£100m**

Maturity structure of new fixed rate borrowing during 2016/17	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%

Appendix 2 - Investments Outstanding as at 31 March 2017

Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	BNP Paribas MMF		MMF	25.00	
	Federated MMF		MMF	9.50	
	Standard Life MMF		MMF	7.30	
	SUB TOTAL			**41.80**	
<1 Month	Rushmoor Borough Council	06/01/2017	03/04/2017	5.00	0.30%
	Kingston Upon Hull City Council	21/02/2017	07/04/2017	10.00	0.32%
	London Borough of Newham	21/02/2017	07/04/2017	20.00	0.32%
	Development Bank of Singapore	10/01/2017	10/04/2017	10.00	0.35%
	Nationwide	12/04/2016	12/04/2017	5.00	0.95%
	Lloyds Banking Group	14/04/2016	13/04/2017	5.00	1.05%
	Lloyds Banking Group	15/04/2016	13/04/2017	5.00	1.05%
	Nationwide	15/04/2016	13/04/2017	10.00	0.97%
	Kingston Upon Hull City Council	23/02/2017	18/04/2017	10.00	0.35%
	Stockport Metropolitan Borough Council	23/02/2017	18/04/2017	10.00	0.35%
	Nationwide	22/04/2016	21/04/2017	5.00	0.95%
	Northamptonshire Council	22/02/2017	24/04/2017	15.00	0.37%
	Cambridgeshire Council	22/02/2017	24/04/2017	15.00	0.37%
	Rabobank	26/10/2016	26/04/2017	10.00	0.52%
	Royal Bank of Scotland	29/04/2016	28/04/2017	5.00	1.25%
	Newcastle Building Society	28/04/2016	28/04/2017	5.00	1.15%
	Lloyds Banking Group	29/04/2016	28/04/2017	5.00	1.05%
	SUB TOTAL			**150.00**	
1 - 3 Months	Heleba Landesbank Hessen-Thüringen	03/05/2016	03/05/2017	10.00	1.01%
	Royal Bank of Scotland	05/05/2015	05/05/2017	5.00	1.45%
	Royal Bank of Scotland	08/05/2015	08/05/2017	5.00	1.45%
	Nottingham Building Society	09/05/2016	09/05/2017	5.00	1.03%
	Commonwealth Bank of Australia	12/05/2016	12/05/2017	5.00	0.99%
	Development Bank of Singapore	22/11/2016	22/05/2017	10.00	0.45%
	West Dunbartonshire Council	23/12/2016	23/06/2017	10.00	0.45%
	London Borough of Croydon	23/12/2016	23/06/2017	20.00	0.45%
	Glasgow City Council	23/02/2017	23/06/2017	15.00	0.45%
	London Borough of Hackney	24/03/2017	26/06/2017	20.00	0.50%
	SUB TOTAL			**105.00**	
3 - 6 Months	Santander (95DN)		Call - 95N	20.00	1.10%
	Royal Bank of Scotland	31/01/2017	31/07/2017	10.00	0.80%
	The Highland Council	01/02/2017	01/08/2017	10.00	0.45%
	Toronto Dominion Bank	16/08/2016	15/08/2017	10.00	0.61%
	Royal Bank of Scotland	19/08/2016	19/08/2017	5.00	0.86%
	SUB TOTAL			**55.00**	
6 - 9 Months	Toronto Dominion Bank	13/10/2016	12/10/2017	10.00	0.59%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Canadian Imperial Bank of Commerce	17/10/2016	16/10/2017	10.00	0.63%
	Toronto Dominion Bank	17/10/2016	16/10/2017	10.00	0.61%
	Goldman Sachs International Bank	24/10/2016	24/10/2017	10.00	0.90%
	Rabobank	26/10/2016	25/10/2017	10.00	0.66%
	Goldman Sachs International Bank	14/11/2016	14/11/2017	10.00	0.93%
	SUB TOTAL			**70.00**	
9 - 12 Months	Royal Bank of Scotland	30/01/2015	30/01/2018	5.00	1.20%
	Slough Borough Council	20/02/2017	19/02/2018	5.50	0.60%
	SUB TOTAL			**10.50**	
> 12 Months	Royal Bank of Scotland	30/04/2015	30/04/2018	5.0	0.90-1.25%
	Royal Bank of Scotland	22/12/2016	22/06/2018	5.00	0.79%
	Royal Bank of Scotland	22/12/2016	24/09/2018	5.00	0.84%
	SUB TOTAL			**15.00**	
	GRAND TOTAL			**447.30**	

Appendix 3 – List of Approved Counterparties for Lending as at 09/06/2017

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

Singapore		SB	AAA			SB	Aaa			SB	AAA		
Banks	DBS Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
	Oversea-Chinese Banking Corp. Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
	United Overseas Bank Ltd.	SB	AA-		F1+	SB	Aa1		P-1	SB	AA-		A-1+
Sweden		SB	AAA			SB	Aaa			SB	AAA		
Banks	Nordea Bank AB	SB	AA-		F1+	SB	Aa3		P-1	SB	AA-		A-1+
	Skandinaviska Enskilda Banken AB	SB	AA-		F1+	SB	Aa3		P-1	SB	A+		A-1
	Svenska Handelsbanken AB	SB	AA		F1+	SB	Aa2		P-1	SB	AA-		A-1+
	Swedbank AB	SB	AA-		F1+	SB	Aa3		P-1	NO	AA-		A-1+
Switzerland		SB	AAA			SB	Aaa			SB	AAA		
Banks	Credit Suisse AG	SB	A		F1	SB	A1		P-1	SB	A		A-1
	UBS AG	SB	A+		F1	SB	Aa3		P-1	SB	A+		A-1
United Kingdom		NO	AA			NO	Aa1			NO	AA		
AAA rated and Government backed securities	Debt Management Office												
Banks	Bank of Scotland PLC	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Close Brothers Ltd	SB	A		F1	SB	Aa3		P-1				
	Co-operative Bank PLC (The)	EW	B-	EW	B	EO	Caa2		NP				
	Goldman Sachs International Bank	SB	A		F1	SB	A1		P-1	SB	A+		A-1
	HSBC Bank PLC	SB	AA-		F1+	NO	Aa2		P-1	NO	AA-		A-1+
	Lloyds Bank Plc	SB	A+		F1	SB	A1		P-1	NO	A		A-1
	Santander UK PLC	SB	A		F1	NO	Aa3		P-1	NO	A		A-1
	Standard Chartered Bank	SB	A+		F1	SB	A1		P-1	SB	A		A-1
	Sumitomo Mitsui Banking Corporation Europe Ltd	SB	A		F1	SB	A1		P-1	PO	A		A-1
	UBS Ltd.	SB	A+		F1	SB	A1		P-1	SB	A+		A-1
	Ulster Bank Ltd	SB	BBB+		F2	PO	A3		P-2	SB	BBB+		A-2
Building Society	Coventry Building Society	SB	A		F1	NO	A2		P-1				
	Cumberland Building Society												
	Leeds Building Society	SB	A-		F1	NO	A2		P-1				
	National Counties Building Society												
	Nationwide Building Society	SB	A+		F1	NO	Aa3		P-1	NO	A		A-1

	Newcastle Building Society		WD		WD								
	Nottingham Building Society					NO	Baa 1		P-2				
	Principality Building Society	SB	BBB+		F2	SB	Baa 3		P-3				
	Progressive Building Society												
	Skipton Building Society	SB	A-		F1	SB	Baa 1		P-2				
	West Bromwich Building Society					SB	B1		NP				
	Yorkshire Building Society	SB	A-		F1	SB	A3		P-2				
Nationalised and Part Nationalised Banks	National Westminster Bank PLC	SB	BBB+		F2	PO	A3		P-2	SB	BBB +		A-2
	The Royal Bank of Scotland Plc	SB	BBB+		F2	PO	A3		P-2	SB	BBB +		A-2

Appendix 4 **Definition of Fitch Credit Ratings**

Support Ratings

Rating	Current Definition (December 2014)
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

Short-term Ratings

Rating	Current Definition (December 2014)
F1	**Highest short-term 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 short-term 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 short-term 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 (December 2014)
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 capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.
BB	**Speculative** - ‘BB’ ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
B	**Highly speculative -** ‘B’ ratings indicate that material default risk is present, but limited margin of safety remains. Financial commitments are currently being me however, capacity for continued payment is vulnerable to deterioration in the busines and economic environment.
CCC	**Substantial credit risk –** ‘CCC’ Default is a real possibility.
CC	**Very high levels of credit risk –** ‘CC’ Default of some kind appears probable
C	**Exceptionally high levels of credit risk** Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a ‘C’ category rating for an issuer include: a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation; b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or c. Fitch Ratings otherwise believes a condition of ‘RD’ or ‘D’ to be imminent or inevitable, including through the formal announcement of a distressed debt exchange. (RD – stands for restricted default and D – default).

Note:

The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the ‘AAA’ Long-Term IDR category, or to Long-Term IDR categories below ‘B’.

Appendix 5 - 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 to borrow 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.
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
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.