| Non-Executive Report of the:<br><br>**Audit Committee**<br><br>**27 September 2017** | TOWER HAMLETS |
| --- | --- |
| **Report of:** Zena Cooke, Corporate Director, Resources | **Classification:**<br><br>Unrestricted |
| **Treasury Management Quarterly Update Report (April 2017 - June 2017)** | |

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| --- | --- |
| Originating Officer(s) | Bola Tobun – Investment & Treasury Manager |
| Wards affected | All Wards |

## Reasons for Urgency

Due to a technical glitch this report could not be attached to the main agenda pack.


## Summary

This report advises the Committee of the Council's borrowing and investment activities from 1st April 2017 to 30th June 2017. The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2017/18 were approved by the Council on 22nd February 2017 as required by the Local Government Act 2003.

The report also provides information on the following:

- the economic conditions prevailing in the first quarter of 2017/18;
- a summary of the prudential indicators;
- treasury management indicators;
- a summary of the credit criteria adopted by the Corporate Director, Resources for the reporting year; and
- the projected investment returns.

For this reporting period, the Council earned an average return of 0.42% on its lending, outperforming the actual rolling average 7 day LIBID rate of 0.23%.

Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and the prudential indicators set out in the Council's Treasury Management Strategy statement. The outturn report in respect of the Treasury Management Strategy for 2016/17 was presented to the Council at its meeting of 19th July 2017. No long-term or short-term borrowing has been raised since the commencement of this financial year 2017/18 to reporting period.


## Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for quarter ending 30th June 2017;

- note the Council's outstanding investments which are an outstanding balance of £501.9m at 30th June 2017 which includes £50m, pension fund cash awaiting investment( appendix 2);
- note the potential impact on the Council of becoming a retail client with effect from 3rd January 2018 as set out at section 3.8; and
- note the protections available to retail clients that the Council will forgo as a result of opting up to professional client (appendix 4).

## 1. REASONS FOR THE DECISIONS

1.1 This report updates on both the borrowing and investment decisions made by Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.

1.2 Treasury management is defined as "the management of the Council's investments and cash flows; its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.3 Legislation requires that regular reports be submitted to Council or the relevant Committee detailing the Council's treasury management activities.

1.4 The regular reporting of treasury management activities should assist in ensuring that Members are able to scrutinise officer decisions and monitor progress on implementation of investment strategy as approved by Full Council.

## 2. ALTERNATIVE OPTIONS

2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities.

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.

2.3 Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.

## 3. DETAILS OF REPORT

3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.

3.2 These regular reports are in addition to mid-year and annual treasury management outturn reports that should be presented to the Council midway through the financial year and at year end respectively.

3.3 **Interest Rate Forecast -** The Council's newly appointed treasury advisor, Arlingclose, has provided the following forecast:

3.3.1 Just over a year after the UK voted to leave the EU there is still a great deal of uncertainty on Brexit negotiations, even after Article 50 was triggered in April. To add to this, the Conservative party lost their overall majority after they called a snap election in June meaning that negotiations may be even harder going forward.

3.3.2 UK GDP growth is forecast to be around 1.6% for 2017 and 1.4% in 2018. Subdued consumer spending will be the main driver behind this period of weaker growth, along with muted business investment due to Brexit-related uncertainty.

| | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Arlingclose Central Case | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Downside risk | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |

3.3.3 Arlingclose's central case for the path of Bank Rate over the next three years remains at 0.25%. Arlingclose believes that the high inflation reflects the impact of sterling's weakness on imports, and in the face of weaker growth prospects, will be looked through by Bank of England policymakers. The likely path for Bank Rate is for it to remain flat at 0.25%. However, there is downside risk for rates to be cut to 0.00% in the short-term and medium-term, and scope for rates to be increased from 2019 onwards, albeit modestly to 0.50%.developments on the world political scene could have a major impact in either keeping yields low or prompting them to recover back up again. We also have a UK general election coming up in May 2015; it is very hard to predict what its likely result will be and the consequent impact on the UK economy, and how financial markets will react to those developments.

3.3.4 In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent any immediate market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Council's counterparty list have sufficient equity buffers to deal with any localised problems in the short term. A more detailed economic commentary is attached as Appendix 1 to this report.

**3.4 Treasury Management Strategy 2017/18**

3.4.1 The Council's Treasury Management Strategy was approved on 22nd February 2017 by Full Council. The Strategy comprehensively outlines how the treasury function will operate throughout the financial year 2017/18 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the Council's policy on long-term borrowing and limits on debt.

3.4.2 All investments made from the start of the year up to 30th June have been with counterparties on the Council's approved lending list.

3.4.3 The Pension Fund cash awaiting investment (£50m redeemed in May 2017 from GMO portfolio) has been invested in accordance with the Council's Treasury Management Strategy agreed by Full council on the 22nd February 2017, under the delegated authority of the Corporate Director, Resources and is being managed in-line with the agreed parameters. The Pensions Committee is updated on Pension Fund investment activity on a quarterly basis.

3.4.4 On 31st March 2017, the Council had net investments of £351m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

**Table 1: Balance Sheet Summary**

| | **31st March 2017 Actual £m** |
|---|---:|
| General Fund CFR | 206.037 |
| HRA CFR | 75.666 |
| **Total CFR** | **281.703** |
| Less: Other debt liabilities * | (36.304) |
| **Borrowing CFR** | **245.399** |
| Less: Usable reserves | (478.489) |
| Less: Working capital | (118.274) |
| **Net (investments)** | **(351.364)** |

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

3.4.5 The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30th June 2017 and the change in the quarter is show in table 2 below.

**Table 2: Treasury Management Summary**

| | **31.3.17 Balance £m** | **Q1 Movement £m** | **30.6.17 Balance £m** | **30.6.17 Rate %** |
|---|---:|---:|---:|---:|
| Long-term borrowing | 85.936 | *0.000* | 85.936 | 4.55 |
| Short-term borrowing | 00.000 | *0.000* | 0.000 | |
| **Total borrowing** | **85.936** | *0.000* | 85.936 | 4.55 |
| Long-term investments | 25.000 | *15.000* | 10.000 | |
| | 285.500 | *(100.000)* | 185.500 | |

| | | | | |
|---|---|---|---|---|
| Short-term investments<br>Cash and cash equivalents | 126.800 | *179.600* | 306.400 | |
| **Total investments** | **437.300** | ***64.600*** | **501.900** | **0.42** |
| **Net investments** | **351.364** | | **415.964** | |

*Due to unfavourable interest rates offered by Local Authorities, investments that were with other LAs which have matured were reinvested in money market funds (MMF) pending better opportunities in the market.*

**Borrowing Strategy during the quarter**

3.4.6 No borrowing has been undertaken in this financial year to date. No debt rescheduling opportunities have arisen during this financial year as the cost of premiums outweighs savings that could be made from the lower PWLB borrowing rates. The borrowing position as at 30th June is show in table 3 below. There has been no change since 31st March 2017.

**Table 3: Borrowing Position**

| | 30.06.17 Balance £m | 30.06.17 Rate % | 30.06.17 WAM* years |
|---|---|---|---|
| Public Works Loan Board | 8.436 | 6.64 | 7.7 |
| Banks (LOBO) | 60.000 | 4.32 | 42.6 |
| Banks (fixed-term) | 17.500 | 4.34 | 60.1 |
| Local authorities (long-term) | | | |
| Local authorities (short-term) | | | |
| **Total borrowing** | **85.936** | **4.55** | **42.7** |

*Weighted average maturity

3.4.7 The Council's take a low risk approach to its borrowing strategy. This means that the chief objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The secondary objective being to have flexibility to renegotiate loans should the Council's long-term plans change.

3.4.8 Over the first quarter of the year no new borrowing was undertaken and existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce its net borrowing costs (despite foregone investment income) and reduce the overall risk.

3.4.9 The "cost of carry" analysis performed by Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore no borrowing has been undertaken at this stage of the year.

3.4.10 The Council continues to hold £60m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates. The Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during quarter 1.

**Investment Activity**

3.4.11 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During quarter 1, the Council's investment balance ranged between £437m to £502 million due to timing differences between income and expenditure. The investment position during the quarter is shown in table 4 below.

**Table 4: Investment Position**

| | 31.03.17 Balance £m | Q1 Movement £m | 30.06.17 Balance £m |
|---|---|---|---|
| Banks & building societies (unsecured) | 240.000 | (30.000) | 210.000 |
| Covered bonds (secured)<br>Government (incl. local authorities) | 165.500 | (130.000) | 35.500 |
| Money Market Funds | | | |
| Corporate bonds and loans | 41.800 | 214.600 | 256.400 |
| Other Pooled Funds | | | |
| **Total investments** | **447.300** | **54.600** | **501.900** |

*Weighted average maturity

3.4.12 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.4.13 Given the increasing risk and falling returns from short-term unsecured bank investments, the Council is looking to further diversify its investment portfolio into more secure and/or higher yielding asset classes. There is currently £200m that is available for longer-term investment and this will be moved from bank and building society deposits into covered bonds, corporate bonds and also into pooled property/bond/equity funds. This action will diversify the investment risk and as a consequence, the average rate of return of investment will increase. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

**Table 5: Investment Benchmarking**

| | Credit Score | Credit Rating | Bail-in Exposure | WAM* (days) | Rate of Return |
|---|---|---|---|---|---|
| 31.03.2017 | 4.44 | A+ | 46% | 91 | 0.61% |
| 30.06.2017 | 4.78 | A+ | 72% | 79 | 0.42% |
| **Similar LAs** | **4.37** | **AA-** | **66%** | **149** | **0.50%** |
| **All LAs** | **4.33** | **AA-** | **65%** | **45** | **0.52%** |

**Performance Report**

3.4.14 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

**Table 6:Investment performance for financial year to 30th June 2017**

| Benchmark | Benchmark Return | LBTH Performance | Over/(Under) Performance |
|---|---|---|---|
| **Full Year 2016/2017** | 0.30% | 0.625% | 0.325% |
| **Quarter 1** | 0.23% | 0.42% | 0.19% |
| **2017/18 Year to Period** | 0.23% | 0.42% | 0.19% |

3.4.15 As illustrated above, the Council outperformed the benchmark by **19bps** for reporting period. The Council's budgeted investment return for 2017/18 is **45bps** (0.45%)**,** and performance for the year to date is **3bps** (-0.03%) below budget.

3.4.16 Investment rates available in the market have been ultra-low since August 2016 when the MPC pegged the Base Rate at 0.25%. The cash balance available for investment purposes during the quarter fluctuated between £430m and £502m. 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.

## 3.5 Investments Outstanding & Maturity Structure

3.5.1 The table below shows the amount of investments outstanding at the end of June 2017, split according to the financial sector.

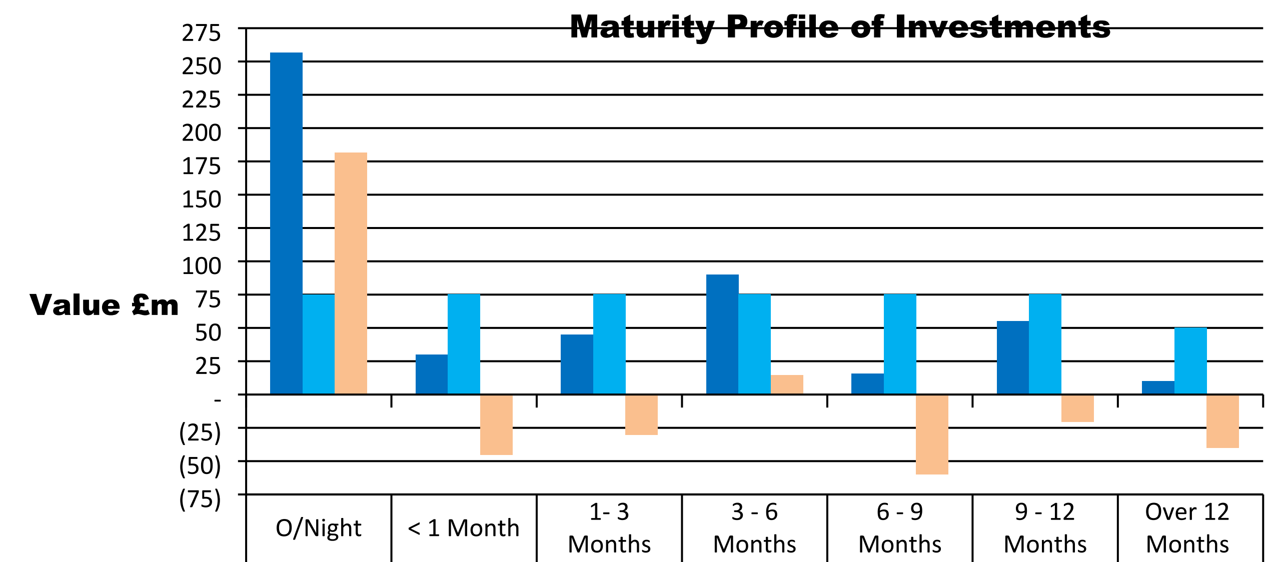
| FINANCIAL SECTOR | £m | % |
|---|---|---|
| Banks in the UK | 55.00 | 10.96 |
| Building Societies in the UK | 20.00 | 3.99 |
| Banks in the Rest of the World | 135.00 | 26.90 |

| | | |
|---|---|---|
| Government & Local Authorities | 35.50 | 7.07 |
| Money Market Funds | 256.40 | 51.08 |
| **Investments Outstanding as at 30/06/2017** | **501.90** | **100.00** |

3.5.2 The chart 1 below illustrates the maturity structure of deposits at 30th June 2017; we have £256.4m as overnight deposits, and this is predominantly Money Market Funds.

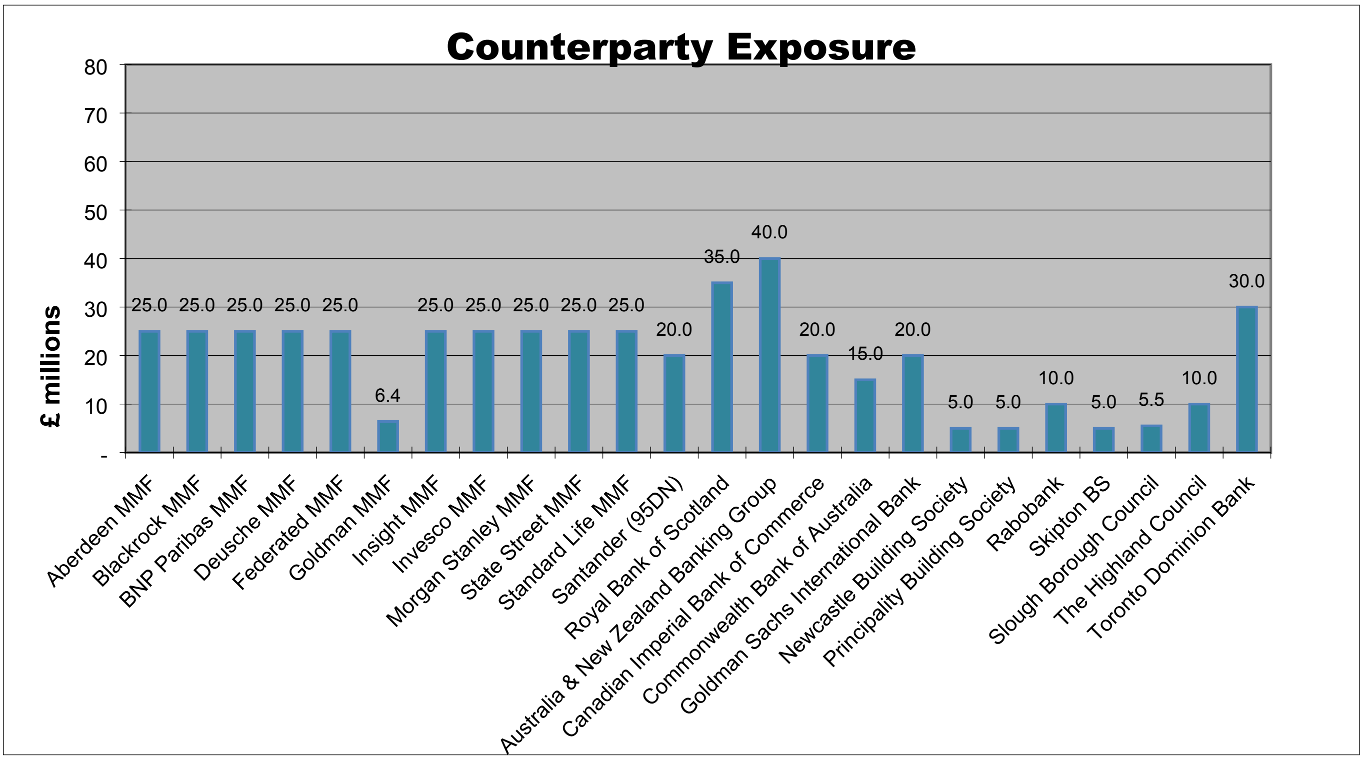
3.5.3 The Weighted Average Maturity for outstanding investment portfolio is 79 days. This is the average number of outstanding days to maturity of each deal from 30th June 2017. This indicates very low number of investments over 12 months.

**Chart 1 - Maturity of Investment Portfolio as at 30th June 2017**




| | O/Night | < 1 Month | 1- 3 Months | 3 - 6 Months | 6 - 9 Months | 9 - 12 Months | Over 12 Months |
|---|---|---|---|---|---|---|---|
| £m Portfolio Value | 256.40 | 30.00 | 45.00 | 90.00 | 15.50 | 55.00 | 10.00 |
| Portfolio Target £ | 75.00 | 75.38 | 75.38 | 75.38 | 75.38 | 75.38 | 50.00 |
| Over/(Under) Target £ | 181.40 | (45.38) | (30.38) | 14.62 | (59.88) | (20.38) | (40.00) |

**Chart 2 - Counterparty Exposure as at 30th June 2017**




3.5.3 The chart 2 above shows the deposits outstanding with authorised counterparties as at 30th June 2017, of which 6.97% (£35m) were with RBS. The deals were executed when this institution was classified as part-nationalised bank. We are currently reviewing the classification of RBS Group as a part nationalised bank and the credit worthiness awarded to this institution under this tag.

3.6 **Compliance Report**

3.6.1 The Corporate Director, Resources is pleased to report that all treasury management activities undertaken during quarter 1 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.7 **Treasury Management Indicators**

3.7.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

3.7.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

| | 30.6.17 Actual | 2017/18 Target | Complied |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Portfolio average credit rating | A+ | N/A | ✓ |
| Portfolio average credit score | 4.78 | N/A | ✓ |

3.7.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

| | 30.6.17 Actual | 2017/18 Target | Complied |
|---|---|---|---|
| Total cash available within [3] months | £331.4m | £75m | ✓ |
| Total sum borrowed in past [3] months without prior notice | nil | nil | ✓ |

3.7.4 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as [the amount / the proportion] of net [principal borrowed / interest payable] which is:

| | 30.6.17 Actual | 2017/18 Limit | Complied |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | | 100% | ✓ |
| Upper limit on variable interest rate exposure | | 20% | ✓ |

3.7.5 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

3.7.6 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

| | 30.6.17 Actual | Upper Limit | Lower Limit | Complied |
|---|---|---|---|---|
| Under 12 months | £0.970m | 10% | 0% | ✓ |
| 12 months and within 24 months | £1.673m | 30% | 0% | ✓ |
| 24 months and within 5 years | £3.421m | 40% | 0% | ✓ |
| 5 years and within 10 years | £1.163m | 80% | 0% | ✓ |
| 10 years and above* | £78.709m | 100% | 0% | ✓ |

*This includes £60m LOBO with maturity date over 60 years and it could be call for repayment within the next 6 months following the last interest payment date ,but there is a very slim chance of this happening hence it is included in this category

3.7.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

3.7.8 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

| | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|
| Actual principal invested beyond year end | £10m | £10m | Nil |
| Limit on principal invested beyond year end | £100m | £100m | £100m |
| Complied | ✓ | ✓ | ✓ |

3.8 **Regulatory Update - MiFID**

3.8.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non Markets in Financial Instrument Directive (MiFID) scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

3.8.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a'per se professional' client or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.

3.8.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

**Potential impact**

3.8.4 A move to retail client status would mean that all financial services firms like banks, brokers, financial institutions, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

3.8.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities.

3.8.6 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as ‘non-complex’. In many cases managers will no longer be able to even discuss (‘promote’) certain asset classes and vehicles with the authority as a retail client.

**Election for professional client status**

3.8.7 MiFID II allows for retail clients that meet certain conditions to elect to be treated as professional clients (to ‘opt up’). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

3.8.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

3.8.9 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities will result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

3.8.10 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

3.8.11 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. Tower Hamlets Council may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end.

3.8.12 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status.

**Next Steps**

3.8.13 In order to continue to effectively implement the authority’s treasury management strategy after 3rd January 2018, applications for election to be treated as a professional client will be submitted to all financial institutions with whom the Council has an existing or potential relationship in relation to its investments.

3.8.14 Appendix 3 sets out the opt-up process flowchart that the Council will be following. We are starting the process to opt up with our existing counterparties from this month (September 2017) in order to ensure completion in good time so we can continue to operate an effective treasury investment strategy.

4. **COMMENTS OF THE CHIEF FINANCIAL OFFICER**

4.1 The report informs the Committee of the treasury management activities, the financial implications are contained throughout the report.

4.2 The Council held an outstanding internally managed investments portfolio of £501.9m as at 30th June 2017. This portfolio earned an average rate of return of 0.42%. The comparable performance indicator is the average 7-day LIBID rate, which returned 0.23%.

5. **LEGAL COMMENTS**

5.1 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.

5.2 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.

5.3 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 adopt the strategies and policies proposed in the report.

5.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 also requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council.

If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

5.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Full Council.

5.6 The report sets out the recommendations of the Corporate Director Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

5.7 When considering its approach to the treasury management matters set out in the report, 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 (the public sector equality duty).

## 6 ONE TOWER HAMLETS CONSIDERATIONS

6.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

## 7. BEST VALUE (BV) IMPLICATIONS

7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.

7.2 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

## 8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no sustainable actions for a greener environment implication.

## 9 RISK MANAGEMENT IMPLICATIONS

9.1 There is inevitably a degree of risk inherent in all treasury activity.

9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

9.4 The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.

## 10 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

**APPENDICES**

Appendix 1 – Economic Commentary

Appendix 2 – Investments Outstanding at 30 June 2017

Appendix 3 – Opt up process flowchart

Appendix 4 –Retail Clients Protections under MiFID II

Appendix 5 – Glossary

**Local Government Act, 1972 Section 100D (As amended)**

**List of "Background Papers" used in the preparation of this report**

Arlingclose Treasury Management Report Q1 2017/18 Template

| **Brief description of "background papers'** | **Name and telephone number of holder and address where open to inspection** |
|---|---|
| | *Bola Tobun, x4733, Mulberry Place* |

## Appendix 1 - ECONOMIC COMMENTARY

1 Commodity prices slid back during the quarter with oil falling below $50 a barrel. The primary factor in the oil price fall was oversupply and a lack of belief in OPEC's (Organisation of Petroleum Exporting Countries) ability to deliver on agreed production caps of members.

2 UK Consumer Price Inflation (CPI) index rose over the quarter and the data print for May showed CPI at 2.9%, its highest since June 2013. The effect of the fall in fuel prices was offset by rises in a number of other categories in the CPI 'basket' as the fall in the value of sterling following June 2016's referendum result continued to feed through into higher import prices. The most recent labour market data for April 2017 showed that the unemployment rate at 4.6% remained at its lowest since July 1975 but that the squeeze on real wages (i.e. after inflation) is intensifying and resulting in negative real wage growth. Q1 GDP data released in April and revised in May showed economic activity growing at a much slower pace of 0.2%. However recent surveys indicate that the slowdown in the first quarter is being viewed as an anomaly and that Q2 GDP could rebound. Understandably, the Bank of England made no change to monetary policy at its meeting on 15th June.

3 Having raised rates in March, the US Federal Reserve made no change to monetary policy at the conclusion of its meeting in May. The recent weakness witnessed in the first print of Q1 US GDP was noted in the accompanying statement but the Fed viewed this as a transitory issue and was of the view that the GDP path and household spending would recover during 2017. The US Federal Reserve then increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and a further similar increase is expected during the second half of 2017.

4 Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty and in the hope of gaining an enhanced mandate to enter the forthcoming Brexit negotiations. The surprise result has led to a minority Conservative government in a confidence and supply arrangement with the Democratic Unionist Party. This political impasse clearly results in an enhanced level of political uncertainty, however the potential for a so-called hard Brexit is now diminished, reducing the associated economic headwinds for the UK economy from a 'no deal' or otherwise unfavourable trade agreement.

5 The reaction from the markets on the election's outcome has been fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country's exit from the EU.

6 In the face of this uncertainty, Arlingclose expects the Bank of England will look through periods of high inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

7 Financial markets: Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of Quantitative Easing (QE) in the US and Europe, which also had an impact on gilts. The yield on the 5 year benchmark gilt rose from 0.56% to 0.69% during the quarter, that on the 10-year gilt rose from 1.06% to 1.26% and the yield on the 20-year gilt rose from 1.65% to 1.78%.

8 The FTSE 100 reached a record high of 7548 in May but dropped off slightly towards the end of the quarter. The FTSE-250 and FTSE All Share indices also rose, the All Share index closing at 4002 at the end of June. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.33% and 0.66% in the quarter respectively.

9 **Credit background:** UK bank credit default swaps have continued their downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.

10 There were a few credit rating changes during the quarter. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1. Moody's downgraded the major Canadian banks' long-term ratings on the agency's expectation of a more challenging operating environment for the banks for the remainder of 2017 and beyond, that could lead to a deterioration in the banks' asset quality and increase their sensitivity to external shocks. Moody's downgraded the ratings of the large Australian banks to Aa3 from Aa2 reflecting the agency's view of the rising risks from the banks' exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

11 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, Arlingclose, the new Council's Treasury Adviser advised their clients to reduce the maximum duration of its deposits at Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as there is some uncertainty surrounding which banking entities the Council will be dealing with once ring-fencing is implemented. Even where there has been a level of clarity provided regarding where local authority customers will sit within the proposed new legal structures of the banks, it is not yet known what the balance sheet structures of those banks will be.

12 S&P also revised Nordea Banks outlook to stable from negative, whilst affirming their long-term rating at AA-. The outlook revision reflects Nordea's geographic diversification and strong financials.

## Appendix 2: Investments Outstanding as at 30th June 17

| Time to Maturity | Counterparty | From | Maturity | Amount £m | Rate |
|---|---|---|---|---|---|
| **Overnight** | Aberdeen MMF | | **MMF** | 25.00 | |
| | Blackrock MMF | | **MMF** | 25.00 | |
| | BNP Paribas MMF | | **MMF** | 25.00 | |
| | Deutsche MMF | | **MMF** | 25.00 | |
| | Federated MMF | | **MMF** | 25.00 | |
| | Goldman MMF | | **MMF** | 6.40 | |
| | Insight MMF | | **MMF** | 25.00 | |
| | Invesco MMF | | **MMF** | 25.00 | |
| | Morgan Stanley MMF | | **MMF** | 25.00 | |
| | State Street MMF | | **MMF** | 25.00 | |
| | Standard Life MMF | | **MMF** | 25.00 | |
| | **SUB TOTAL** | | | **256.40** | |
| **< 1 Month** | Surrey County Council | 05/04/2017 | 05/07/2017 | 20.00 | 0.45% |
| | Royal Bank of Scotland | 31/01/2017 | 31/07/2017 | 10.00 | 0.80% |
| | **SUB TOTAL** | | | **30.00** | |
| **1 - 3 Months** | 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% |
| | Australia & New Zealand Banking | 17/05/2017 | 17/08/2017 | 10.00 | 0.30% |
| | Royal Bank of Scotland | 19/08/2016 | 19/08/2017 | 5.00 | 0.86% |
| | Australia & New Zealand Banking | 26/06/2017 | 26/09/2017 | 10.00 | 0.30% |
| | **SUB TOTAL** | | | **45.00** | |
| **3 - 6 Months** | Santander (95DN) | | Call - 95N | 20.00 | 1.10% |
| | 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** | | | **90.00** | |
| **6 - 9 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% |
| | Skipton BS | 23/03/2017 | 22/03/2018 | 5.00 | 0.78% |
| | **SUB TOTAL** | | | **15.50** | |
| **9 - 12 Months** | Principality Building Society | 06/04/2017 | 06/04/2018 | 5.00 | 0.78% |
| | Newcastle Building Society | 28/04/2017 | 27/04/2018 | 5.00 | 0.80% |
| | Royal Bank of Scotland | 28/04/2017 | 30/04/2018 | 5.00 | 1.79% |
| | Nottingham Building Society | 09/05/2017 | 08/05/2018 | 5.00 | 0.77% |
| | Australia & New Zealand Banking Group | 17/05/2017 | 16/05/2018 | 10.00 | 0.52% |
| | Commonwealth Bank of Australia | 17/05/2017 | 16/05/2018 | 15.00 | 0.53% |
| | Australia & New Zealand Banking Group | 17/05/2017 | 16/05/2018 | 10.00 | 0.52% |
| | **SUB TOTAL** | | | **55.00** | |
| **> 12 Months** | 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** | | | **10.00** | |
| | | | | | |
| | **TOTAL** | | | **501.90** | |

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

# Appendix 3

**UK Local Authority Client Opt-Up Process**

| STAGES | TIMELINE | GUIDANCE |
|---|---|---|
| **Preparatory Stage**<br>Finalise standard opt-up process | End July 2017 | (i) Finalise industry standard quantitative and qualitative questionnaire;<br>(ii) Finalise request and consent letter from Local Authority to be opted-up; and<br>(iii) Finalise response letter from investment firms agreeing to the opt-up. |
| **Stage 1**<br>Local authorities to complete letter and questionnaire and send to investment firms | August – September 2017 | Local authorities to complete and send investment firms:<br>(i) request and consent letter to be opted-up to professional client status; and<br>(ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test). |
| **Stage 2**<br>Investment Firms to validate the information and run the client status assessment | September – October 2017 | Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate.<br><br>Assess the information received by the local authority and confirm that it:<br>(i) has provided the request and consent letter to be treated as a professional client; and<br>(ii) passes (i) the quantitative test and (ii) the qualitative test<br><br>Log and store the local authority information and the results of the internal assessment. |
| **Stage 3**<br>Dispatch the confirmation letter to LA clients confirming professional client status | October 2017 | If a local authority has provided the request and consent letter and has satisfied the requirements for both:<br>(i) the quantitative test; and<br>(ii) the qualitative test, send a letter confirming the classification of the client as a professional client. |
| **Stage 4**<br>Client re-categorisation | 3 January 2018 | Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client. |

## Appendix 4

**Warnings - loss of protections as a Professional Client**
Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**
As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**
The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,
(A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
(B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
(C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
(D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**
In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**
For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment
knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**
A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors,

such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**
For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**
Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**
The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**
Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**
The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**
In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**
As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**
The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.
It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

## 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. |