Cabinet 4 February 2015	TOWER HAMLETS
Report of: Chris Holme, Acting Corporate Director of Resources	**Classification:** Unrestricted
Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2015-16	

Lead Member	Cllr Alibor Choudhury (Cabinet Member for Resources)
Originating Officer(s)	Bola Tobun - Investment & Treasury Manager
Wards affected	All wards
Community Plan Theme	One Tower Hamlets
Key Decision?	Yes

1. SUMMARY

1.1 The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are :

- a policy statement on the basis of which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
- a Treasury Management Strategy Statement which sets out the Council's proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and
- an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.2 This report also deals with the setting of Prudential Indicators for 2015-16, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. Under of the government's self-financing arrangements for the Housing Revenue Account (HRA) there are specific indicators relating to HRA capital investment.

1.3 The Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) which requires the following:

- Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 4);
- Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Approval by Full Council of Minimum Revenue Provision Policy, an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and prudential indicators for the year ahead together with arrangements for a Mid-year Review Report and an Annual Report covering activities during the previous year;
- Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is shown in Appendix 5.

1.4 Officers will report details of the council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid-year and full-year report will be presented to Full Council. More detailed reporting arrangements are shown in Appendix 6.

1.5 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

2. <u>DECISIONS REQUIRED</u>

Cabinet is requested to:-

2.1 Recommend that Full Council adopt:

2.1.1 The Minimum Revenue Provision Policy Statement set out in paragraph 7 of this report;

2.1.2 The Treasury Management Strategy Statement set out in sections 8-11 of this report; and

2.1.3 The Annual Investment Strategy set out in section 12 & 13 of this report, which officers involved in treasury management, must then follow.

2.2 Delegate to the Acting Corporate Director of Resources, after consultation with the Lead Member for Resources, authority to vary the figures in this report to reflect any decisions made in relation to the Capital Programme prior to submission to Budget Council.

3 <u>REASONS FOR DECISIONS</u>

3.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- Minimum Revenue Provision Policy Statement
- Treasury Management Strategy, including prudential indicators
- Investment Strategy

4 **<u>ALTERNATIVE OPTIONS</u>**

4.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. 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 the Council's capital investment plans are affordable, sustainable and prudent.

4.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

5. **<u>BACKGROUND</u>**

5.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity primarily before considering investment return.

5.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

5.3 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.4 **<u>REPORTING REQUIREMENTS</u>** -The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **A treasury management strategy statement** (this report) – it covers:
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the capital plans (including prudential indicators);
   - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed).

II. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

6. TREASURY MANAGEMENT STRATEGY FOR 2015/16

6.1 The strategy for 2015/16 covers two main areas:

Capital issues

- the minimum revenue provision (MRP) policy;
- the capital plans and the prudential indicators.

Treasury management issues

- prospects for interest rates;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

6.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

6.3 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

7.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).

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

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

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

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

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

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

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

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

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

- **Option 3** (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.
- **Option 4** (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

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

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

8. **THE CAPITAL PRUDENTIAL INDICATORS 2015/16 – 2017/18**

8.1 Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

8.2 **Capital expenditure** - This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Education, social Care and Wellbeing	*15.269*	*22.552*	*31.404*	*22.004*	*12.000*
Communities, Localities and Culture	*7.598*	*7.128*	*11.616*	*2.465*	*2.465*
Building Schools for the future	*49.573*	*6.073*	-	-	-
Development & Renewal	*7.208*	*20.217*	*2.658*	*0.730*	-
Civic Centre		*12.000*	-	-	-
Total Non-HRA	**82.653**	**67.970**	**45.678**	**25.199**	**14.465**
Polar Baths and Dame Colet House		-	*5.991*	*9.189*	-
HRA	*50.255*	*115.622*	*97.031*	*61.522*	*1.594*
Total HRA	**50.255**	**115.622**	**103.022**	**70.711**	**1.594**
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**

8.3 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

8.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	82.653	67.970	45.678	25.199	14.465
HRA	50.255	115.622	103.022	70.711	1.594
Total	**132.908**	**183.592**	**148.700**	**95.910**	**16.059**
Financed by:					
Capital receipts	*(14.701)*	*(22.400)*	*(2.934)*	*(2.757)*	*-*
Capital reserves		*(0.389)*			
Capital grants & Developers	*(95.131)*	*(106.35)*	*(54.771)*	*(15.005)*	*(15.275)*

contributors					
Credit Arrangement			*(4.194)*	*(6.432)*	*-*
Major Repairs allowance	*(11.799)*	*(26.218)*	*(31.810)*	*(15.000)*	*-*
Direct Revenue Financing	*(10.258)*	*(18.135)*	*(34.911)*	*(0.813)*	*-*
Total Financed	**(131.889)**	**(173.497)**	**(132.719)**	**(56.247)**	**(15.275)**
Net financing need (Borrowing need) for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**

8.5 **The Council's borrowing need (the Capital Financing Requirement)-** The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

The Council is asked to approve the CFR projections below:

£m	2013/14 Actual	2014/15 Revised Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Capital Financing Requirement					
CFR – non housing	190.455	198.052	202.842	203.875	196.096
CFR – housing	69.675	69.675	85.656	125.319	126.103
Total CFR	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**

Movement in CFR represented by					
Net financing need for the year	**1.019**	**10.095**	**15.980**	**39.663**	**0.784**
Less MRP/VRP and other financing movements		(2.498)	4.790	1.033	(7.779)
Movement in CFR		**7.597**	**20.770**	**40.696**	**(6.995)**

8.6 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

8.7 The Council has set the following **affordability prudential indicators** as prescribed by the code and these are set out below and detailed in Appendix 1.

8.8 **Ratio of financing costs to 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. The estimates of financing costs include current commitments and the proposals in this budget report.

%	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Non-HRA	2.29%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	4.01%	4.51%	6.49%	6.53%

8.9 **Incremental impact of capital investment decisions on council tax** - This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax - band D	0.00	1.325	2.520	2.446	2.375

8.10 Estimates of the incremental impact of capital investment decisions on housing rent levels - Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

£	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Weekly housing rent levels	0.000	0.821	1.200	3.099	0.060

9. PROSPECTS FOR INTEREST RATES

9.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Capita's overall view on interest rates for the next three years.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2014	0.50	2.50	3.90	3.90
Mar 2015	0.50	2.70	4.00	4.00
Jun 2015	0.75	2.70	4.10	4.10
Sep 2015	0.75	2.80	4.30	4.30
Dec 2015	1.00	2.90	4.40	4.40
Mar 2016	1.00	3.00	4.50	4.50
Jun 2016	1.25	3.10	4.60	4.60
Sep 2016	1.25	3.20	4.70	4.70
Dec 2016	1.50	3.30	4.70	4.70
Mar 2017	1.50	3.40	4.80	4.80
Jun 2017	1.75	3.50	4.80	4.80
Sep 2017	2.00	3.50	4.90	4.90
Dec 2017	2.25	3.50	4.90	4.90
Mar 2018	2.50	3.50	5.00	5.00

9.2 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 and especially during 2014, to surpass all expectations, propelled by recovery in consumer spending and the housing market.

9.3 Forward surveys are also currently very positive in indicating that growth prospects are strong for 2015, particularly in the services and construction sectors. However, growth in the manufacturing sector and in exports has weakened during 2014 due to poor growth in the Eurozone.

9.4 There is a need for a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this initial stage in the recovery to become more firmly established. One drag on the economy is that wage inflation has been lower than CPI inflation so eroding disposable income and living standards, although income tax cuts have ameliorated this to some extent.

9.5 This therefore means that labour productivity must improve significantly for this situation to be corrected by warranting increases in pay rates. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen in the near future.

9.6 The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

9.7 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

a) As for the Eurozone, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and a triple dip recession since 2008.

b) Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

c) Investment returns are likely to remain relatively low during 2015/16 and beyond;

d) Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. During July to October 2014, a building accumulation of negative news has led to an overall trend of falling rates. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

e) There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

10. **TREASURY MANAGEMENT ISSUES**

10.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council anticipates its fund balances in 2015/16 to average around £250m, if we persist with the policy of internal borrowing to fund the Council's underlying need to borrow.

10.2 The Pension Fund surplus cash of some £41m has been invested and will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Acting Corporate Director of Resources to manage within agreed parameters.

10.3 The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

10.4 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

Detailed below are estimates of the year end balances of investments.

Year End Resources	2013/14 Actual	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Expected Investments	£292.4m	£280m	£250m	£220m	£200m

10.5 **Current portfolio position** - The Council's treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
External Debt					
Debt at 1 April	90.406	88.893	97.921	112.013	150.706
Expected change in Debt	(0.842)	(0.672)	(1.067)	(1.889)	(0.970)
New borrowing	1.019	10.095	15.981	39.663	0.784
Other long-term liabilities (OLTL)	40.299	39.41	38.472	37.508	36.303
Expected change in OLTL	(0.889)	(0.938)	3.230	5.227	(1.347)
Actual gross debt (Inc. PFI) at 31 March	**129.990**	**136.788**	**154.537**	**192.522**	**185.476**
The Capital Financing Requirement (Inc. PFI)	**260.130**	**267.727**	**288.498**	**329.194**	**322.199**
Under / (over) borrowing	**130.140**	**130.939**	**133.961**	**136.672**	**136.723**

10.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

10.7 The Acting Corporate Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

10.8 **Treasury Indicators: limits to borrowing activity for 2014-15 to 2017-18** Treasury indicators are about setting parameters within which within which officers can take treasury management decisions. The Council has set the following treasury indicators as prescribed by the Code and these are set out below and also detailed in Appendix 1:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external debt permitted. It must not be breached without Full Council approval.

  The Council is asked to approve the following authorised limit:

Authorised limit £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Borrowing & OLTL	245.720	294.287	309.304	347.762
Headroom	20.000	20.000	20.000	20.000
Total	**265.720**	**314.287**	**329.304**	**367.762**

- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement. Debt includes external borrowings and other long term liabilities.

Operational Boundary £m	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	206.310	255.815	271.796	311.459
Other long term liabilities	39.410	38.472	37.508	36.303
Total	**245.720**	**294.287**	**309.304**	**347.762**

- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 1 April 2012. The new regime imposes a maximum HRA CFR on the Council. For the Council this has been set at £184m following repayment of HRA debt totalling £236.2m by Government as part of debt settlement that preceded the implementation of the HRA Self Financing regime. In 2014, As part of the Local Growth Fund LBTH were awarded £8.225m of additional HRA borrowing capacity, so in effect the HRA debt cap will go up from £184m to £192m.

HRA Debt Limit £m	2014/15 Projected Outturn	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA debt cap	184.381	192.000	192.000	192.000
HRA CFR	69.675	85.656	125.319	126.103
HRA Headroom	**114.706**	**106.344**	**66.681**	**65.897**

Investment returns expectations

10.9 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

10.10 Policy Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

10.11 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

10.12 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 1.75%

10.13 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

10.14 **Investments Longer than a Year:** The Code of Practice requires the Council to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Council currently has £25m of investments invested for longer than one year.

10.15 Having given due consideration to the level of balances over the next five years, the need for liquidity, spending commitments and provisions for contingencies, it is determined that up to £50 million of total fund balances could be prudently invested for longer than one year. However, in making such investments, consideration must be given to the uncertain economic outlook and the prospect for continued market volatility in the Eurozone.

10.16 Therefore taking all of the foregoing into consideration, to allow the Council flexibility to invest in high quality counterparties such, as the UK Government, it is recommended that the Council set an upper limit for principal sums to be invested for longer than one year at £50 million for 2015/16, £50 million for 2016/17, £50 million for 2017/18 £40 million for 2018/19 and £40m for 2019/20.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2015/16**	**2016/17**	**2017/18**
Principal sums invested > 364 days	£50m	£50m	£50m

10.17 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to100 days),such as its Santander 95 days call account in order to benefit from the compounding of interest.

10.18 **Provision for Credit-related Losses -** If any of the Council's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Council has no exposure to any banking failure.

11. BORROWING STRATEGY

11.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

11.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2015/16 treasury operations. The Acting Corporate Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

11.3 Any decisions will be reported to the Cabinet and the full Council at the next available opportunity.

11.4 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- Temporary borrowing from the money markets or other local authorities
- PWLB variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

11.5 The Council will continue to borrow in respect of the following:

- Maturing debt (net of minimum revenue provision).
- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

11.6 The type, period, rate and timing of new borrowing will be determined by the Acting Director of Corporate Resource under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

11.7 **Treasury management limits on borrowing activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- **Upper limits on variable interest rate exposure** - This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- **Upper limits on fixed interest rate exposure** - This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- **Maturity structure of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	2015/16	**2016/17**	**2017/18**
Interest rate exposures			
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates based on net debt	100	100	100
Limits on variable interest rates based on net debt	50	50	50
Limits on fixed interest rates:			
• ***Debt only***	*100*	*100*	*100*
• ***Investments only***	*100*	*100*	*100*
Limits on variable interest rates			
• ***Debt only***	*20*	*20*	*20*
• ***Investments only***	*20*	*20*	*20*

Maturity structure of fixed interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	80%
10 years and above	0%	100%
Maturity structure of variable interest rate borrowing 2015/16		
	Lower	**Upper**
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

11.8 **Policy on borrowing in advance of need** - The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11.9 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
- Would not look to borrow more than 12 months in advance of need.

11.10 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual outturn reporting mechanism.

11.11 **Debt rescheduling** - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

11.12 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.13 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

11.14 All rescheduling will be reported to the Cabinet and Council, at the earliest meeting following its implementation.

12 ANNUAL INVESTMENT STRATEGY

12.1 **Credit Rating Methodology:** The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2015 or 2016. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

12.2 It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

12.3 Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

12.4 Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

12.5 As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that the Council has always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, the Council will continue to utilise CDS prices as an overlay to ratings in our new methodology.

12.6 **Investment policy** - The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

12.7 in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

12.8 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

12.9 As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

12.10 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

12.11 Investment instruments identified for use in the financial year are listed in section 13.9 and 13.10, under the ‘specified’ and ‘non-specified’ investments categories.

12.12 In **summary –** considering the factors set out in Paragraphs 10 and 12, the recommended Investment Strategy is that:

I. The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
II. Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
III. The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
IV. The upper limit for investments longer than one year is £50 million;
V. The maximum period for longer term lending is 5 years;
VI. All investment with institutions and investment schemes is undertaken in accordance with the Council’s creditworthiness criteria as set out at section 13;
VII. More cautious investment criteria are maintained during times of market
VIII. uncertainty;
IX. All investment with institutions and investment schemes is limited to the types of investment set out under the Council’s approved “Specified” and “Non-Specified” Investments detailed at section 13, and that professional advice continues to be sought where appropriate;
X. All investment is managed within the Council’s approved investment/asset class limits.

13. **Creditworthiness policy**

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

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

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

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

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

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

- Banks with good credit quality **–** the Council will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA

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

    i. Short Term – 'F1'
    ii. Long Term – 'A'

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

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

    or meet both criteria.
- Money market funds – AAA
- Enhanced money market funds (EMMFs) – AAA
- Certificates of Deposits
- Corporate Bonds
- Covered Bonds
- UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))
- Local authorities, parish councils, Police and Fire Authorities
- Supranational institutions

13.6 **The Council is asked to approve the minimum credit rating required for an institution to be included in the Council's counterparty list as follows:**

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

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

- no more than aggregate of £75m or 25% of the investments portfolio will be placed with any non-UK country institutions at any time;
- limits in place above will apply to a group of companies;
- Product limits will be monitored regularly for appropriateness.

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

Time and monetary limits applying to investments

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

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

Non-Specified Investments:

13.10 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums Invested for more than 364 days that can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.

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

13.13 The "RAG" (Red, Amber or Green) framework will be used by the Council to evaluate and compare the security and liquidity elements of investment opportunities with banks as well as building societies.

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

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

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

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

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

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

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

13.16 It is considered that the maximum percentage of overall investments that the Council should hold for more than 365 days is £50m. (Investments with maturity over a year) The prudential indicator figure of £50m is therefore recommended.

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

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

The Council is asked to approved the above criteria for specified and all non-specified investments.

13.16 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council's minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institions will be removed from the list, by officers as deemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 02/01/2015.

14. Service/Policy Investments driven by Members

14.1 The Council proposed to support the borough Credit Union in building its capital reserves in order to be viable to tackle payday providers - Under this scheme the Council has decided to place funds of £40k, with London Community Credit Union for a period of 5 years. This is classified as being a community service investment, rather than a treasury management investment, and is therefore outside of the treasury management strategy.

15 COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

16. LEGAL COMMENTS

16.1 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.

16.2 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.

16.3 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.

16.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 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.

16.5 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.

16.6 The report sets out the recommendations of the Acting Corporate Director Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy and whether these comply with the requirements outlined in paragraphs 16.1 to 16.5 above. The Acting 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.

16.7 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). A proportionate level of equality analysis is required and there is information relevant to this in section 17 of the report.

17 <u>ONE TOWER HAMLETS CONSIDERATIONS</u>

17.1 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.

18 <u>SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT</u>

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

19 <u>RISK MANAGEMENT IMPLICATIONS</u>

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

19.2 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.

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

19.4 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.

20 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

21 EFFICIENCY STATEMENT

21.1 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.

APPENDICES

Appendix 1 – Prudential and Treasury Indicators

Appendix 2 – Definition of Credit Ratings

Appendix 3 – Current Counter Party Credit Rating List

Appendix 4 – Treasury Management Policy Statement

Appendix 5 – Treasury Management Scheme of Delegation

Appendix 6 – Treasury Management Reporting Arrangement

Appendix 7 - Glossary

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

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

Brief description of "background papers"	Name and telephone number of holder and address where open to inspection.
Capital Asset Services TMSS Report Template	*Bola Tobun, x4733, Mulberry Place*
Excerpt from Metro Bank Presentations (January 2015)	

APPENDIX 1

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

Prudential Indicators	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
Extract from Estimate and rent setting reports	**Actual**	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
Non – HRA	80.113	67.153	67.970	45.678	25.199	14.465
HRA	50.255	99.760	115.622	103.022	70.711	1.594
TOTAL	**130.368**	**166.913**	**183.592**	**148.700**	**95.910**	**16.059**
Ratio of Financing Costs To Net Revenue Stream						
Non – HRA	2.29%	3.51%	2.63%	2.74%	2.92%	3.04%
HRA	3.70%	3.69%	4.01%	4.51%	6.49%	6.53%
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross Debt and Capital Financing Requirement						
Gross Debt	129.990	141.060	136.788	154.537	192.522	185.476
Capital Financing Requirement	260.130	317.600	267.727	288.498	329.194	322.199
Over/(Under) Borrowing	(130.140)	(176.540)	(130.939)	(133.961)	(136.672)	(136.723)
In Year Capital Financing Requirement						
Non – HRA	0.000	57.470	7.597	4.790	1.033	(7.779)
HRA	0.000	0.000	0.000	15.980	39.663	0.784
TOTAL	**0.000**	**57.470**	**7.597**	**20.770**	**40.696**	**(6.995)**
Capital Financing Requirement as at 31 March						
Non - HRA	190.455	247.925	198.052	202.842	203.875	196.096
HRA	69.675	69.675	69.675	85.656	125.319	126.103
TOTAL	**260.130**	**317.600**	**267.727**	**288.498**	**329.194**	**322.199**
Incremental Impact of Financing Costs (£)						
Increase in Council Tax (band D) per annum	0.000	0.908	1.325	2.520	2.446	2.375
Increase in average housing rent per week	0.000	0.000	0.821	1..200	3.099	0.060

Treasury Management Indicators	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit For External Debt -						
Borrowing & Other long term liabilities	245.720	308.985	294.287	309.304	347.762	347.199
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
TOTAL	**265.720**	**328.985**	**314.287**	**329.304**	**367.762**	**367.199**
Operational Boundary For External Debt -						
Borrowing	206.310	270.513	255.815	271.796	311.459	312.243
Other long term liabilities	39.410	38.472	38.472	37.508	36.303	34.956
TOTAL	**245.720**	**308.985**	**294.287**	**309.304**	**347.762**	**347.199**
Gross Borrowing	**129.990**	**141.060**	**136.788**	**154.537**	**192.522**	**185.476**
HRA Debt Limit*	**184.381**	**192.000**	**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%**	**100%**
Upper Limit For Variable Rate Exposure						
Net interest payable on variable rate borrowing / investments	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
Upper limit for total principal sums invested for over 364 days (per maturity date)	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**	**£50m**

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

Support Ratings

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

Long -term Ratings

Rating	Current Definition (August 2003)
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.

Appendix 3

COUNTER PARTY CREDIT RATING LIST as at 02/01/2015

	Fitch Rating				Moody's Ratings			S&P Ratings	
INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Australia	AAA	-	-	-	Aaa	-	-	AAA	-
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Macquarie Bank Limited	A	F1	a	3	A2	P-1	C-	A	A-1
National Australia Bank Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
Canada	AAA	-	-	-	Aaa	-	-	AAA	-
Bank of Montreal	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1
Canadian Imperial Bank of Commerce	AA-	F1+	aa-	1	Aa3	P-1	C+	A+	A-1
National Bank of Canada	A+	F1	a+	1	Aa3	P-1	C	A	A-1
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Denmark	AAA	-	-	-	Aaa	-	-	AAA	-
Danske Bank	A	F1	a	1	A3	P-2	C-	A	A-1
Finland	AAA	-	-	-	Aaa	-	-	AA+	-
Nordea Bank Finland plc ~	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Pohjola Bank	A+	F1	-	1	Aa3	P-1	C-	AA-	A-1+
Germany	AAA	-	-	-	Aaa	-	-	AAA	-
BayernLB	A+	F1+	bb+	1	A3	P-2	D	-	-
Commerzbank AG	A+	F1+	bbb	1	Baa1	P-2	D+	A-	A-2
Deutsche Bank AG	A+	F1+	a	1	A3	P-2	D+	A	A-1
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	A+	F1+	-	1	A1	P-1	C-	AA-	A-1+

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Landesbank Baden Wuerttemberg	A+	F1+	bbb	1	A2	P-1	D+	-	-
Landesbank Berlin AG	-	-	-	-	A1	P-1	D+	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	A+	F1+	-	1	A2	P-1	D+	A	A-1
Landwirtschaftliche Rentenbank	AAA	F1+	-	1	Aaa	P-1	-	AAA	A-1+
Norddeutsche Landesbank Girozentrale	A	F1	bbb-	1	A3	P-2	D	BBB+	A-2
NRW.BANK	AAA	F1+	-	1	Aa1	P-1	-	AA-	A-1+
UniCredit Bank AG (Suspended)	A+	F1+	a-	1	Baa1	P-2	D+	A-	A-2
Luxembourg	AAA	-	-	-	Aaa	-	-	AAA	-
Banque et Caisse d'Epargne de l'Etat	-	-	-	-	Aa1	P-1	C	AA+	A-1+
Clearstream Banking	AA	F1+	aa	1	-	-	-	AA	A-1+
Netherlands	AAA	-	-	-	Aaa	-	-	AA+	-
Bank Nederlandse Gemeenten	AAA	F1+	-	1	Aaa	P-1	B-	AA+	A-1+
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	-	1	Aa2	P-1	B-	A+	A-1
ING Bank NV	A+	F1+	a	1	A2	P-1	C-	A	A-1
Nederlandse Waterschapsbank N.V	-	-	-	-	Aaa	P-1	C+	AA+	A-1+
Norway	AAA	-	-	-	Aaa	-	-	AAA	-
DnB Bank	-	-	-	-	A1	P-1	C-	A+	A-1
Singapore	AAA	-	-	-	Aaa	-	-	AAA	-
DBS Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Oversea Chinese Banking Corporation Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
United Overseas Bank Ltd	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+
Sweden	AAA	-	-	-	Aaa	-	-	AAA	-
Nordea Bank AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Skandinaviska Enskilda Banken AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Swedbank AB	A+	F1	a+	1	A1	P-1	C-	A+	A-1
Svenska Handelsbanken AB	AA-	F1+	aa-	1	Aa3	P-1	C	AA-	A-1+
Switzerland	AAA	-	-	-	Aaa	-	-	AAA	-

INSTITUTION/COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Credit Suisse AG	A	F1	a	1	A1	P-1	C-	A	A-1
UBS AG	A	F1	a	1	A2	P-1	C-	A	A-1
U.S.A	AAA	-	-	-	Aaa	-	-	AA+	-
Bank of America, N.A.	A	F1	a-	1	A2	P-1	C-	A	A-1
Bank of New York Mellon, The	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+
BOKF, NA	A	F1	a	5	A1	P-1	B-	A	A-1
Citibank, N.A.	A	F1	a	1	A2	P-1	C-	A	A-1
HSBC Bank USA, N.A.	AA-	F1+	a-	1	A1	P-1	C-	AA-	A-1+
JPMorgan Chase Bank NA	A+	F1	a+	1	Aa3	P-1	C	A+	A-1
Northern Trust Company	AA-	F1+	aa-	5	A1	P-1	B-	AA-	A-1+
Silicon Valley Bank	-	-	-	-	A2	P-1	C+	BBB+	-
State Street Bank and Trust Company	AA-	F1+	aa-	1	Aa3	P-1	B-	AA-	A-1+
U.S. Bancorp	AA-	F1+	aa-	5	A1	P-1	-	A+	A-1
Wells Fargo Bank NA	AA-	F1+	aa-	1	Aa3	P-1	C+	AA-	A-1+
U.K	AA+	-	-	-	Aa1	-	-	AAA	-
Abbey National Treasury Services plc	A	F1	-	-	A2	P-1	-	-	-
Bank of New York Mellon (International) Ltd	AA-	F1+	-	1	-	-	-	-	-
Barclays Bank plc	A	F1	a	1	A2	P-1	C-	A	A-1
Cater Allen	-	-	-	-	-	-	-	-	-
Citibank International Plc	A	F1	-	1	A2	P-1	C-	A	A-1
Close Brothers Ltd	A	F1	a	5	A3	P-2	C	-	-
Clydesdale Bank	A	F1	bbb+	1	Baa2	P-2	D+	BBB+	A-2
Co-operative Bank Plc	B	B	b	5	Caa2	NP	E	-	-
Credit Suisse International	A	F1	-	1	A1	P-1	-	A	A-1
Goldman Sachs International	A	F1	-	-	A2	P-1	-	A	A-1
Goldman Sachs International Bank	A	F1	-	-	A2	P-1	D+	A	A-1
HSBC Bank plc	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+
MBNA Europe Bank	A-	F1	-	1	-	-	-	-	-
Merrill Lynch International	A	F1	-	1	-	-	-	A	A-1
Morgan Stanley & Co. International plc	-	-	-	-	A3	P-2	-	A	A-1
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1

INSTITUTION / COUNTRY	Long Term	Short Term	Viability	Support	Long Term	Short Term	FSR	Long Term	Short Term
Standard Chartered Bank	AA-	F1+	aa-	1	A1	P-1	B-	A+	A-1
Sumitomo Mitsui Banking Corporation Europe Ltd	A-	F1	-	1	A1	P-1	C	A+	A-1
UBS Ltd	A	F1	-	1	A2	P-1	-	A	A-1
Coventry BS	A	F1	a	5	A3	P-2	C	-	-
Leeds BS	A-	F1	a-	5	A3	P-2	C	-	-
Nationwide BS	A	F1	a	1	A2	P-1	C	A	A-1
Newcastle BS	BB+	B	bb+	5	-	-	-	-	-
Nottingham BS	-	-	-	-	Baa2	P-2	C-	-	-
Principality BS	BBB+	F2	bbb+	5	Baa3	P-3	D+	-	-
Skipton BS	BBB	F2	bbb	5	Baa3	P-3	D+	-	-
West Bromwich BS	-	-	-	-	B2	NP	E+	-	-
Yorkshire BS	A-	F1	a-	5	Baa1	P-2	C-	-	-
AAA rated and Government backed securities	-	-	-	-	-	-	-	-	-
Collateralised LA Deposit*	AA+	-	-	-	Aa1	-	-	AAA	-
Debt Management Office	AA+	-	-	-	Aa1	-	-	AAA	-
Supranationals	AAA	-	-	-	Aaa	-	-	AAA	-
UK Gilts	AA+	-	-	-	Aa1	-	-	AAA	-
Lloyds Banking Group plc	A	F1	a-	1	A2	-	-	A-	A-2
Bank of Scotland Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Lloyds Bank Plc	A	F1	a-	1	A1	P-1	C-	A	A-1
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa2	P-2	-	BBB+	A-2
National Westminster Bank Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
The Royal Bank of Scotland Plc	A	F1	bbb	1	Baa1	P-2	D+	A-	A-2
Ulster Bank Ltd (Suspended)	A-	F1	ccc	1	Baa3	P-3	E+	BBB+	A-2

Appendix 4

Treasury Management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:

   "The management of the authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

Policy on use of an External Treasury Advisor

The Council shall employ an external treasury advisor to provide treasury management advice and cash management support services. However, the Council shall control the credit criteria and the associated counter-party list for investments.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Appendix 5

Treasury Management Scheme of Delegation

1. Full Council / Cabinet

- receiving and reviewing reports on treasury management policies. practices and activities
- receiving the mid-year and annual (outturn) reports
- approval of annual strategy.

2. Cabinet /Section 151 Officer

- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment.

3. Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations

Appendix 6

Treasury Management Reporting Arrangement

Area of Responsibility	**Council/Committee/ Officer**	**Frequency**
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Mid-Year Treasury Management Report	Full Council	Semi-Annually in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Audit Committee or Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee and Full Council	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director-Resources	N/A
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee (if called in) / Audit Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

Appendix 7

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.