

Cherwell District Council

Accounts Audit and Risk Committee

25 June 2014

Update to Existing 2014-15 Treasury Strategy

Report of the Interim Head of Finance and Procurement

This report is public

Purpose of report

To receive information on the proposed amendments of the existing Treasury Strategy for 2014-15 required to facilitate the proposals for the development of the Graven Hill and other projects. This is subject to any amendments the Accounts, Audit and Risk Committee may wish to make.

1.0 Recommendations

The Accounts, Audit and Risk Committee is recommended to:

- 1.1 Resolve to consider and note the proposed amendments to the existing Treasury Strategy for 2014-15 and to note the proposal to provide delegated authority to the Director of Resources in the application of Minimum Revenue Provision (MRP).

2.0 Introduction

- 2.1 Included at Appendix 1 is a table of proposed amendments made to the existing Treasury Strategy for 2014-15.

3.0 Report Details

- 3.1 The Council prepares and adopts a Treasury Management Strategy on an annual basis. The current Strategy for 2014-15 was approved by full Council in February 2014 and is attached as Appendix 2 to this report for reference.
- 3.2 One key element of this Strategy is the Minimum Revenue Provision policy statement (MRP) (section 2.3 in existing Strategy). MRP is the means by which capital expenditure which is financed through borrowing or credit arrangements is funded by council tax payers. Local authorities are required to set aside some of their revenues as provision for the repayment of this debt.
- 3.3 Under the existing strategy there are currently two options of applying the MRP –

- **Asset Life method** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method.** MRP will follow standard depreciation accounting procedures (option 4)

3.4 The business case for the development of Graven Hill details that the council will undertake significant levels of borrowing over the forthcoming years to provide loans to the company established to undertake said development. This in turn would require a significant revenue provision for repayment of that debt.

3.5 The Council is establishing a company which it will provide loans to on a commercial basis to facilitate the development of Graven Hill.. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2021, with interest paid annually.

Once funds are returned to the Authority, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (7 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will

3.6 To ensure that any further changes to this approach can be addressed promptly and prudently this update requests that there is now delegated authority to the Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

It should be noted that this criteria will apply to all capital schemes for consideration over the treatment of MRP.

3.7 The Prudential Indicators in Section 2 of the strategy have also been updated to reflect the updated Capital Financing requirement in 2014/15 and 2015/16 and the Borrowing thresholds in Section 3 have been updated to facilitate the additional borrowing needs..

3.8 The Council is proposing to provide equity financing to the Graven Hill company to fund revenue expenditure. Appendix 3 of the Strategy has therefore been updated to detail under Non Specified Investments – “Investments in Share Capital of a

wholly owned subsidiary company". This provides the council with the power to invest in such an undertaking.

3.9 A further review and update will be completed in setting the 2015/16 Treasury Strategy alongside the budget setting the process for that year..

3.10 The above policies will be reviewed as further guidance or legislation becomes available.

4.0 Conclusion and Reasons for Recommendations

4.1 For the audit committee to consider and approve the proposed amendments to the Treasury Management Strategy for 2014-15.

5.0 Consultation

5.1 None

6.0 Alternative Options and Reasons for Rejection

6.1 None

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

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Risk Management Implications

7.3 There are no risk implications arising directly from any outcome of this report.

Comments checked by:

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8.0 Decision Information

Wards Affected - All wards are affected

Links to Corporate Plan and Policy Framework - All corporate plan themes.

Lead Councillor - None

Document Information

| Appendix No | Title |
|---|---|
| Appendix 1 | Proposed Amendments to Treasury Management Strategy 2014-15 |
| Appendix 2 | Updated Treasury Management Strategy 2014-15 |
| Background Papers | |
| Executive Report 16 th June 2014 - Graven Hill | |
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Amendment to Treasury Strategy 2014-15

Table of Amendments:-

| 2014/15 Treasury Strategy | Amendments |
|--|--|
| 2.Capital Prudential Indicators | |
| 2.1 Capital Expenditure | Tables updated to reflect actual expenditure for 2013/14 and revised programme for 2014/15 including Build Project and Graven Hill |
| 2.2 Councils Borrowing need (CFR) | Table updated to reflect Capital Financing requirements to fund Capital programme – incorporating Build and Graven Hill. |
| 2.3 Minimum revenue provision (MRP) Policy Statement | Wording updated to :- <ul style="list-style-type: none"> • amend the policy to reflect the transactions that will be undertaken for Graven Hill. • to provide delegated authority to the Director of Resources to make any necessary changes to future MRP policies in accordance with the prudential code and accounting regulations. |
| 3 Borrowing | |
| 3.3 Operational and Authorised boundaries | Tables updated to facilitate the required borrowing to meet the Councils Capital Financing Requirements. |
| Appendix 3 – Non Specified Investments | Update to table of non specified investments to authorise the investment in share capital of wholly owned subsidiary companies. |

CHERWELL DISTRICT COUNCIL

Treasury Management Strategy

Minimum Revenue Provision Policy Statement and
Annual Investment Statement

2014-15

1. Introduction

1.1 Background

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 initially before considering investment return.

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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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.”

1.2 Reporting requirements

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. These reports are required to be adequately scrutinised by committee. This role is undertaken by the Accounts Audit & Risk Committee.

Report 1 - Treasury Strategy including Prudential and Treasury Indicators (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time)
- 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).

Report 2 - A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. In addition the Accounts Audit and Risk Committee will receive quarterly update reports.

Report 3 - An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Accounts Audit and Risk Committee.

1.3 Treasury Management Strategy for 2014-15

The strategy for 2014-15 covers two main areas:

Treasury management Issues

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

Capital Issues

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

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

1.4 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receives appropriate training relevant to their needs and fully understands their roles and responsibilities.

The Council's approach is:

- To identify Members who require training;
- To assess the level of training required and procure training from an external organisation with expertise in this area, including the Council's Treasury Advisor, Capita Asset Services; and
- To monitor the ongoing training needs of Members based on legislative, regulatory and best-practice requirements.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Council uses Capita Asset Services, Treasury 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.

It also 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.

2. Capital Prudential Indicators 2014-15 – 2016/17

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

2.1 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 £'000 | 2012/13 Actual | 2013/14 Actual | 2014-15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| Total | 11,172 | 7,451 | 35,285 | 26,834 | 1,500 |

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 £'000 | 2012/13 Actual | 2013/14 Actual | 2014-15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|--|-------------------|-------------------|---------------------|---------------------|---------------------|
| Total | 11,172 | 7,451 | 35,285 | 26,834 | 1,500 |
| Financed by: | | | | | |
| Capital receipts | (9,617) | (6,585) | (24,384) | (467) | (725) |
| Capital grants | (544) | (539) | (375) | (0) | (375) |
| Reserves funded through Revenue | (446) | (327) | (389) | (0) | (400) |
| Donated asset Contribution | (565) | (0) | (0) | (0) | (0) |
| External Funding | (0) | (0) | (900) | (0) | (0) |
| Net financing need for the year | 0 | 0 | 9,237 | 26,367 | 0 |

2.2 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 assets life.

The Council is asked to approve the CFR projections below:

| £'000 | 2012/13 Actual | 2013/14 Actual | 2014-15 Estimate | 2015/16 Estimate | 2016/17 Estimate |
|--------------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement | | | | | |
| Total CFR | -3,152 | -3,152 | 6,085 | 32,452 | 32,452 |
| Movement in CFR | 0 | 0 | 9,237 | 26,367 | 0 |

| Movement in CFR represented by | | | | | |
|--|----------|----------|--------------|---------------|----------|
| Net financing need for the year (above) | 0 | 0 | 9,237 | 26,637 | 0 |
| Less MRP/VRP and other financing movements | 0 | 0 | 0 | 0 | 0 |
| Movement in CFR | 0 | 0 | 9,237 | 26,637 | 0 |

2.3 Minimum revenue provision (MRP) policy statement

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), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

CLG regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
- **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

The Council is establishing a company which will provide loans on a commercial basis. The cash advances will be used by the company to fund capital expenditure and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of loans advanced and under the terms of contractual loan agreements are due to be returned in full by 2021, with interest paid annually.

Once funds are returned to the Authority, the returned funds are classed as a capital receipt, off-set against the CFR, which will reduce accordingly. As this is a temporary (7 year) arrangement and the funds will be returned in full, there is no

need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The outstanding loan/CFR position will be reviewed on an annual basis and if the likelihood of default increases, a prudent MRP policy will commence.

To ensure that any required changes to this approach can be addressed promptly and prudently the Council has adopted a policy providing delegated authority to the Service Director of Resources to defer the charging of MRP in accordance with the Prudential Code and current accounting regulations in the following circumstances:

- There is a separately identifiable project with quantified borrowing costs.
- The period from the projects inception to it becoming operational is significantly in excess of 12 months.
- A business case has been produced incorporating the deferred MRP and capitalised interest which demonstrates that the project is prudent and affordable over its whole life.
- The borrowing and MRP amounts are material, in excess of £250,000 annually.
- The deferred MRP and accumulated interest will be charged to the appropriate revenue account on a prudent basis, once the project is operational.

2.4 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.).

2.5 Affordability prudential indicators

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. The Council is asked to approve the following indicators:

2.6 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.

| % | 2012/13 Actual % | 2013/14 Estimate % | 2014-15 Estimate % | 2015/16 Estimate % | 2016/17 Estimate % |
|----------|---------------------------------|-----------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Non-HRA | 0 | 0 | 0 | 0 | 0 |

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



3 Borrowing

3.1 The council is currently debt free however the capital programme as detailed in section 2 demonstrates that Capital Receipts are diminishing. Future projects may require the need to borrow and for the council to enter into long term debt arrangements.

3.2 The Head of Finance and Procurement will monitor this situation and if and when there is a requirement to borrow outside of the operational and authorised limits as detailed below an updated version of this strategy will be prepared for member approval.

Treasury Indicators: limits to borrowing activity

3.3 The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

| Operational boundary £'000 | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | £15m | £40m | £40m | £40m |
| Other long term liabilities | £0 | £0 | £0 | £0 |
| Total | £15m | £40m | £40m | £40m |

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

| Authorised limit £'000 | 2014/15 Estimate | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Debt | £20m | £45m | £45m | £45m |
| Other long term liabilities | £0 | £0 | £0 | £0 |
| Total | £20m | £45m | £45m | £45m |

4. Annual Investment Strategy

4.1 Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 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.

In accordance with the above, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings and watches published by all three ratings agencies with a full understanding of what the ratings reflect in the eyes of each agency. Using the Capita Asset Services ratings service banks' ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Further, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial Capita Asset Services 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. To this end 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. This is encapsulated within the credit methodology provided by the advisors, Capita Asset Services.

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

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divestification and thus avoidance of concentration risk.

The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in **Appendix 3** under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

4.2. Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
-

- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

| | Colour (and long term rating where applicable) | Money Limit | Time Limit |
|---|--|----------------|------------|
| Banks * | yellow | £15m | 5yrs |
| Banks | purple | £15m | 2 yrs |
| Banks | orange | £15m | 1 yr |
| Banks – part nationalised | blue | £15m | 1 yr |
| Banks | red | £15m | 6 mths |
| Banks | green | £15m | 100 days |
| Banks | No colour | Not to be used | |
| DMADF | AAA | unlimited | 6 months |
| Local authorities | n/a | £5m per auth | 5 yrs |
| Money market funds | AAA | £10m per fund | liquid |
| Enhanced money market funds with a credit score of 1.25 | Dark pink / AAA | £10m per fund | liquid |
| Enhanced money market funds with a credit score of 1.5 | Light pink / AAA | £10m per fund | liquid |

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalent) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government. Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 4**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy

4.3 Investment Strategy

In-house funds. 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).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014-15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

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

| | |
|---------|-------|
| 2014-15 | 0.50% |
| 2015/16 | 0.50% |
| 2016/17 | 0.75% |
| 2017/18 | 2.25% |

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.

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

| Maximum principal sums invested > 364 days | | | |
|--|----------------|----------------|----------------|
| £'000 | 2014-15 | 2015/16 | 2016/17 |
| Principal sums invested > 364 days | 15,000 | 15,000 | 15,000 |

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.4 Icelandic Bank Investments –The council has received repayment of £5.7m of the initial Capital Investment of £6.5m with the remaining capital balance of £730k currently remaining in Iceland. The interest element attributed to the investment made - £624k also currently resides in Iceland.

The Council continues to pursue this with the LGA and Bevan Brittan for the transfer of these funds to the UK. It is too early to provide a definitive policy on how any exchange rate risk will be managed, but the expectation will be that the risk will be managed proactively and assets converted to sterling at the earliest opportunity.

4.5 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Appendix

1. Interest rate forecasts
 2. Economic background
 3. Treasury Management practice - Specified and non specified investments and limits
 4. Approved countries for investments
 5. Treasury management scheme of delegation and the role of the section 151 officer
 6. Glossary
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Appendix 1: Interest Rate Forecasts 2013-2017

| Capita Asset Services Interest Rate View | | | | | | | | | | | | | | | |
|--|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Now | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
| Capita Asset Services Bank Rate View | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% |
| 3 Month LIBID | 0.39% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.60% | 0.70% | 0.90% | 1.00% |
| 6 Month LIBID | 0.47% | 0.60% | 0.60% | 0.60% | 0.60% | 0.60% | 0.60% | 0.60% | 0.60% | 0.60% | 0.70% | 0.80% | 1.00% | 1.20% | 1.40% |
| 12 Month LIBID | 0.75% | 0.80% | 0.80% | 0.80% | 0.80% | 0.80% | 0.80% | 0.80% | 0.90% | 1.00% | 1.20% | 1.40% | 1.60% | 1.80% | 2.00% |
| 5yr PWLB Rate | 2.38% | 2.50% | 2.50% | 2.60% | 2.70% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% | 3.50% | 3.60% | 3.70% |
| 10yr PWLB Rate | 3.52% | 3.70% | 3.70% | 3.70% | 3.80% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |
| 25yr PWLB Rate | 4.29% | 4.40% | 4.40% | 4.40% | 4.50% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.10% | 5.10% | 5.20% |
| 50yr PWLB Rate | 4.33% | 4.40% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.20% | 5.20% | 5.30% |
| Bank Rate | | | | | | | | | | | | | | | |
| Capita Asset Services | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% | 1.25% |
| UBS | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - | - | - | - | - |
| Capital Economics | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | - | - | - | - | - |
| 5yr PWLB Rate | | | | | | | | | | | | | | | |
| Capita Asset Services | 2.38% | 2.50% | 2.50% | 2.60% | 2.70% | 2.70% | 2.80% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% | 3.50% | 3.60% | 3.70% |
| UBS | 2.38% | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Capital Economics | 2.38% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.30% | 2.50% | 2.90% | 3.30% | - | - | - | - | - |
| 10yr PWLB Rate | | | | | | | | | | | | | | | |
| Capita Asset Services | 3.52% | 3.70% | 3.70% | 3.70% | 3.80% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% | 4.60% | 4.60% |
| UBS | 3.52% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | - | - | - | - | - | - | - | - | - |
| Capital Economics | 3.52% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.55% | 3.80% | - | - | - | - | - |
| 25yr PWLB Rate | | | | | | | | | | | | | | | |
| Capita Asset Services | 4.29% | 4.40% | 4.40% | 4.40% | 4.50% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.10% | 5.10% | 5.20% |
| UBS | 4.29% | 4.40% | 4.50% | 4.50% | 4.60% | 4.60% | - | - | - | - | - | - | - | - | - |
| Capital Economics | 4.29% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.25% | 4.35% | - | - | - | - | - |
| 50yr PWLB Rate | | | | | | | | | | | | | | | |
| Capita Asset Services | 4.33% | 4.40% | 4.40% | 4.40% | 4.50% | 4.60% | 4.70% | 4.80% | 4.90% | 5.00% | 5.10% | 5.20% | 5.20% | 5.20% | 5.30% |
| UBS | 4.33% | 4.50% | 4.50% | 4.60% | 4.60% | 4.70% | - | - | - | - | - | - | - | - | - |
| Capital Economics | 4.33% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.40% | 4.50% | - | - | - | - | - |

Appendix 2: Economic Background

THE GLOBAL ECONOMY

The Eurozone. The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in getting a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

USA. The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its \$85bn per month asset purchases programme of quantitative easing. However, it is expected that this level of support will start to be tapered down by the end of 2013. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have therefore been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and introduce other economic reforms, appears to have stalled. However, at long last, Japan has seen strong growth of 4% in the first two quarters of 2013 which portends well for the hopes that Japan can escape from the bog of stagnation and help support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded in quarter 1 (+0.3%) and 2 (+0.7%) of 2013 to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The August 2013 Bank of England Inflation Report consequently upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Bank Governor Mark Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong AND sustainable growth. So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

Forward guidance. The Bank of England also issued forward guidance with this Inflation Report which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.7 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year

plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the latest Inflation Report noted that productivity had sunk to 2005 levels. There has therefore been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment. The forecast in this report for Bank Rate not to start increasing until quarter 3 of 2016 is based on a slow reduction of unemployment, (in line with the Bank of England's forecast), and contrary to the prevalent market view where rates are indicating that Bank Rate is expected to start going up in early 2015.

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases (though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is now due to start in October 2013. While there have been concerns that these schemes are creating a bubble in the housing market, the housing market remains weak outside of London and the south-east with a significant increase in house prices either being entirely absent or minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 2.7% in September. It is expected to fall back to reach the 2% target level within the two year horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

Capita Asset Services forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during the remainder of 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

Near-term, there is some residual risk of further QE - if there is a dip in strong growth or if the MPC takes action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years. This could cause shorter-dated gilt yields and PWLB rates over the next year or two to significantly undershoot the forecasts in the table below. The failure in the US, (at the time of writing), over passing a Federal budget for the new financial year starting on 1 October, and the expected tension over raising the debt ceiling in mid October, could also see bond yields temporarily dip until any binding agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the Fed could cause bond yields to rise.

The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries.

Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

Downside risks currently include:

- The conflict in the UK between market expectations of how quickly unemployment will fall as opposed to the Bank of England's forecasts
- Prolonged political disagreement over the US Federal Budget and raising the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.

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

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
 - A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
 - Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth which could result in the ratio of total government debt to GDP to rise to levels that undermine investor confidence in the UK and UK debt.
 - UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
 - In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
-

Appendix 3: Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS:

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

| | Minimum 'High' Credit Criteria | Use |
|--|---|--------------|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term deposits – local authorities | -- | In-house |
| Term deposits – banks and building societies | Green | In-house |
| Term deposits – banks and building societies | Short-term F1, Long-term A, Viability BB+ | Fund Manager |

Term deposits with nationalised banks and banks and building societies

| | Minimum Credit Criteria | Use | Max £ | Max. maturity period |
|----------------------------|--|--------------|--|----------------------|
| UK part nationalised banks | Green | In-house | £15m including Investec's limit | 364 days |
| UK part nationalised banks | UK sovereign rating or Short-term F1, Long term A ,Viability BB+ | Fund Manager | Max 15% of fund | 364 days |

| | | |
|--|---|--|
| Collateralised deposit | UK sovereign rating | In-house and Fund Managers |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | Green | In-house and Fund Manager |
| Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | Fund Manager |
| UK Government Gilts | UK sovereign rating | In house buy and hold and Fund Manager |
| Bonds issued by multilateral development banks | AA- | In house buy and hold and Fund Manager |
| Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation) | UK sovereign rating | In house buy and hold and Fund Manager |

| | | |
|---|---------------------|--|
| Sovereign bond issues (other than the UK govt) | AA- | In house buy and hold and Fund Manager |
| Treasury Bills | UK sovereign rating | In house and Fund Manager |
| | | |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): - | | |
| 1. Government Liquidity Funds | AAA | In-house |
| 2. Money Market Funds | AAA | In-house |

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

NON-SPECIFIED INVESTMENTS: A maximum of 30% will be held in aggregate in non-specified investment

. Maturities of ANY period

| | * Minimum Credit Criteria | Use | Max % of fund | Max. maturity period |
|--|---|----------------------------|----------------|----------------------|
| Commercial paper issuance covered by a specific UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | In- house and Fund Manager | 15% | 2 years |
| Commercial paper other | Short-term F1, Long-term A, Viability BB+ | In- house and Fund Manager | 15% | 2 years |
| Other debt issuance by UK banks covered by UK Government (explicit) guarantee | Short-term F1, Long-term A, Viability BB+ | In- house and Fund Manager | 15% | 2 years |
| Investment in Share Capital of a wholly owned subsidiary company | Not applicable | In- house | Not applicable | Not applicable |

Appendix 4: Approved countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- France
- Hong Kong
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
 - Saudi Arabia
-

Appendix 5: Treasury management scheme of delegation

6.1 Full council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

6.2 Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

6.3 Accounts Audit & Risk Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

6.4 Role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
 - submitting regular treasury management policy reports
 - submitting budgets and budget variations
 - receiving and reviewing management information reports
 - reviewing the performance of the treasury management function
 - ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
 - ensuring the adequacy of internal audit, and liaising with external audit
 - recommending the appointment of external service providers.
-

Appendix 6: Glossary

| | |
|--|---|
| Asset Class Limits | Limit on the amount of the total portfolio that can be invested an asset class for example credit rated Banks, Money Market Funds unrated Building Societies |
| Asset Life | The length of the useful life of an asset e.g. a school |
| Borrowing / Investment Portfolio | A list of loans or investments held by the Council. |
| Borrowing Requirement | The amount that the Council needs to borrow to finance capital expenditure and manage debt. |
| Callable deposit | Funds placed with a financial institution without a fixed maturity date (i.e. the money can be 'called' or withdrawn at any time). |
| Capitalisation direction | Government approval to use capital resources to fund revenue expenditure. |
| Cash deposits | Funds placed with a financial institution with a fixed maturity date and interest rate. |
| Certificates of deposits | (CD). CDs evidence fixed maturity time deposits with issuing banks or other deposit-taking institutions. Maturities range from less than a week to five years. They are normally negotiable and enjoy a liquid secondary market. They state the (1) amount deposited, (2) rate of interest, and (3) minimum period for which the deposit should be maintained without incurring early withdrawal penalties. |
| CIPFA Code of Practice on Treasury Management | A code of practice issued by CIPFA detailing best practice for managing the treasury management function. |
| Collateralised Deposit | Term deposits with UK institutions where such deposits are secured against a collateral pool comprised of loans made to UK local authorities. |
| Counterparty | Banks, Building Societies and other financial institutions that the Council transacts with for borrowing and lending. |
| Credit Arrangements | Methods of financing such as the use of finance leases |
| Credit Ratings | A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poors to indicate the creditworthiness and other factors of a Governments, banks, building societies and other financial institutions. |
| Creditworthiness | How highly rated an institution is according to its credit rating. |
| Debt Management Office | An agency of the HM Treasury and its responsibilities include debt and cash management for the UK |

| | |
|---|---|
| | Government |
| Debt Rescheduling | Refinancing loans on different terms and rates to the original loan. |
| Financial instrument | Document (such as a bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money. |
| Fitch Ratings | A credit rating agency. |
| Forward commitment | Written agreement by a lender to advance a loan on a future date at a specified interest rate. It automatically expires if not exercised by the potential borrower. |
| Gilts | Also known as Gilt-edged Securities. UK central Government debt. It may be dated (redeemable) or undated. Undated gilts are perpetual debt, paying a fixed periodic coupon but having no final redemption date. Gilt yields are conventionally quoted in the UK markets on a semi-annual basis. |
| Interest Rate exposures | A measure of the proportion of money invested and what impact movements in the financial markets would have on them. |
| Lender Option Borrower Option (LOBO) | Loans that have a fixed rate for a specified number of years then can be varied by the lender at agreed intervals for the remaining life of the loan. |
| Limits for external debt | A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford. |
| Liquidity | Access to cash that is readily available. |
| Lowest Common Denominator | Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Council's lending list. |
| Maturity | The date when an investment is repaid or the period covered by a fixed term investment. |
| Maturity Structure of Borrowings | A profile of the Council's loan portfolio in order of the date in which they expire and require repayment. |
| Minimum Revenue Provision | The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt. |
| Money Market Funds | Open ended collective investment fund that invests in highly-liquid short-term financial instruments (with maturities typically 90 days to less than one year). |
| Moody's | A credit rating agency. |
| Non Specified Investments | Investments deemed to have a greater potential of |

| | |
|---|--|
| | risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during |
| Portfolio | A number of different assets, liabilities, or assets and liabilities together, considered as a whole. For example, a diversified investment portfolio. An investor in such a portfolio might hold a number of different investment assets within the portfolio, with the objectives of growing the total value of the portfolio and limiting the risk of losses. |
| Prudential Borrowing | Borrowing undertaken by the Council that does not attract government support to help meet financing costs. |
| Prudential Code for Capital Finance in Local Authorities | The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford. |
| Prudential Indicators | The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this. |
| Public Works Loan Board (PWLB) | A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow. |
| Credit Rated | Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors. |
| Risk Control | Putting in place processes to control exposures to events. |
| Security | Placing cash in highly rated institutions. |
| Sovereign debt rating | Assessment of the international rating agencies of the likelihood that a particular country will default on its loans. |
| Specified Investments | Investments that offer high security and liquidity. They must have a maturity of no longer than 364 days. |
| Standard and Poors | A credit rating agency. |
| Supranational Institutions | Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank |
| UK Government Investments | Debt Management Office (DMO) deposits and bonds (gilts) for which maturity date at time of purchase is less than 365 days away |

| | |
|--------------|---|
| | |
| Yield | The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today's yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today's market value to the redemption amount payable at maturity. |
