Corporate Governance and Standards Committee Report

Report of Managing Director

Author: Vicky Worsfold

Tel: 01483 444834

Email: victoria.worsfold@guildford.gov.uk

Lead Councillor responsible: Nigel Manning

Tel: 01252 665999

Email: nigel.manning@guildford.gov.uk

Date: 23 July 2015

Treasury management annual report 2014-15

Executive Summary

Treasury management is the control and management of all the Council's cash, regardless of its source. It covers management of the daily cash position, investments and borrowing. Our cash balances have built up over a number of years, and reflect our strong balance sheet, with considerable revenue and capital reserves. Officers carry out this function within the parameters set by the Council each year in the treasury management strategy statement.

The Council considers security, liquidity and yield when making investment decisions. The most important part of making investments is security of capital – ensuring we get our money back. Next, we consider liquidity – getting our money back when we need it. Once we are comfortable with both security and liquidity of the investment, we review the return on the investment.

The Chartered Institute of Public Finance and Accountancy (CIPFA) treasury management code of practice and the CIPFA Prudential Code for Capital Finance in Local Authorities require us to set Prudential and Treasury Indicators. CIPFA also requires an annual report on treasury management activity and compliance with Prudential Indicators.

The objectives of the Prudential Code, and the indicators calculated in accordance with it, is to provide a framework for local authority capital finance that will ensure:

- capital expenditure plans are affordable
- all external borrowing is within prudent and sustainable levels
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the Council is accountable by providing a clear transparent framework.

This report (section 8) confirms that the Council complied with its Prudential Indicators, treasury management policy statement and treasury management practices for 2014-15.

The treasury management performance over the past year, compared to estimate, is summarised in the table below. We discuss the factors affecting this performance throughout the report, and in **Appendix 1**.

	Estimate %	**Actual %**	**Estimate (£000)**	**Actual (£000)**
General Fund Capital Financing Requirement (CFR)			58,096	30,311
Housing Revenue Account CFR			196,664	196,664
Return on investments	1.02	1.03	725	1,167
Interest paid on external debt			5,096	5,147
Total Net interest paid			**4,371**	**3,980**

For detailed information on the return on investments, and interest paid on external debt can be found in sections 6.1 to 6.7 of the main report.

Recommendation to Council

The committee is asked to note the:

1) treasury management annual report for 2014-15
2) actual Prudential Indicators or 2014-15, as detailed in **Appendix 1** to this report

<u>Reason for Recommendation:</u>
To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1. Purpose of Report

1.1 The Local Government Act 2003 states the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the CLG Investment Guidance.

1.2 The CIPFA treasury management code of practice requires public sector authorities to produce an annual treasury management strategy, and as a minimum, report to Councillors on treasury activity mid-year and after the year-end.

1.3 This report covers the activity of the treasury management function in 2014-15. It also covers the requirement to report on the Prudential and Treasury indicators for the year.

1.4 The Council borrows and invests substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

1.5 Treasury management is a highly complex, technical and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 8**) to aid the reading of this report.

2. Strategic Framework

2.1 Treasury management is a key function in enabling the Council to achieve financial excellence and value for money. This report will detail the activities of the treasury management function and the effects of the decisions taken in the year in relation to the best use of its resources.

3. Background

3.1 Treasury management is defined by CIPFA as:

"the management of the Council'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"

3.2 The Council has overall responsibility for treasury management. Treasury management contains a number of risks. The effective identification and management of those risks are integral to the Council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

3.3 The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce Prudential Indicators. A requirement of the Prudential Code is the adoption of the CIPFA treasury management code of practice and the treasury management policy statement (its revision was approved by Council on 9 February 2012).

3.4 The objectives of the prudential code are to ensure, within a clear framework, that the capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

3.5 The Council has adopted the revised CIPFA treasury management code of practice. It operates its treasury management function in compliance with this Code and the statutory requirements.

3.6 This annual report, and the appendices attached to it, set out:

- a summary of the economic factors affecting the approved strategy and counterparty update (sections 4 and 5with detail in **Appendix 3**)
- a summary of the approved strategy for 2014-15 (section 6)
- a summary of the treasury management activity for 2014-15 (section 7 with detail in **Appendix 1**)
- compliance with the treasury and prudential indicators (section 8 with detail in **Appendix 1**)
- risks and performance (section 9)
- Minimum Revenue Provision (MRP) (section 10)
- details of external service providers (section 11)
- details of training (section 12)

4. Economic Environment

4.1 This section includes a summary of the economic environment for 2014-15, to show the treasury management activity in context. **Appendix 3** contains more detail.

4.2 During 2014-15, the UK continued to grow, house prices increased, and healthy retail sales contributed to the positive outlook for the UK economy.

4.3 Annual Consumer Price Inflation (CPI) fell to zero for the year to March 2015, down from 1.6% a year earlier. The key reason was the fall in oil prices.

4.4 The UK labour market improved and wage growth rose in real terms. Unemployment fell to 5.7% down from 7.2% a year earlier.

4.5 The Bank of England Monetary Policy Committee (MPC) maintained interest rates at 0.5% and asset purchases (Quantitative Easing, QE) at £375 billion. It suggested that increases in the Bank Rate would be gradual and limited, and below average historical levels.

4.6 In Europe, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. QE was announced in September to try to avoid deflation in the euro area.

4.7 From July 2014, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation with the Eurozone and the big slide in the price of oil and its transmission through into lower prices globally. 5-year, 10-year and 20-year gilts fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

4.8 The above highlights that, during 2014-15, there was still uncertainty in the markets across the UK and the Eurozone. This meant that interest rates remained low, and borrowing rates were at their lowest seen for many years.

5. Counterparty update

5.1 In October, following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full blown Eurozone crisis. Durations for new unsecured investments with some UK institutions were further reduced to 100 days in February 2015.

5.2 The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. We therefore introduced secured investment options into our portfolio. More details on the market signals can be found in **Appendix 3**.

6. Approved strategy for 2014-15 – a summary

6.1 Council approved the treasury management strategy for 2014-15 in February 2014.

6.2 The strategy showed an underlying need to borrow in 2014-15 for the General Fund (GF) capital programme of £37.249 million.

6.3 The strategy set our how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed investments for our core cash (cash not required in the short or medium term).

6.4 It highlighted the need to further diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties using the lowest denominator principle for the three main credit rating agencies.

7. Treasury management activity in 2014-15

7.1 The treasury position at 31 March 2015, compared to the previous year is:

		31 March 2014 (£'000)	Average Rate	31 March 2015 (£'000)	Average Rate
Fixed Rate Debt	PWLB	149,045	3.23%	148,815	3.23%
	Market	0	0.00%	0	0.00%
Variable Rate Debt	PWLB	45,000	0.56%	45,000	0.56%
	Market	0	0.00%	0	0.00%
Long-term	LAs	0	0.00%	5,000	1.50%
Temporary borrowing	LAs	0	0.00%	15,000	0.33%
Total Debt		**194,045**	**2.61%**	**213,815**	**2.50%**
Fixed Investments		(32,500)	0.69%	(72,146)	0.66%
Variable Investments		(37,432)	0.74%	(25,152)	0.59%
Externally managed		(15,441)	2.09%	(16,590)	3.39%
Total Investments		**(85,373)**	**0.96%**	**(113,887)**	**1.03%**
Net Debt / (Investments)		**108,672**		**99,928**	

7.2 PWLB is the Public Works Loans Board and is a statutory body operating as an executive agency of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.

7.3 The above table shows investments have increased by £28.5 million and loans have increased by £19.7 million. Therefore, net debt has decreased by £8.7 million.

7.4 We budgeted a return of 1.02% for 2014-15 and achieved 1.03%. Our return is also slightly higher than that achieved in 2013-14, the main reason being an increase in the return of our externally managed funds.

7.5 The Council's budgeted investment income for 2014-15 was £0.7 million and actual interest was £1,167,569. We had been projecting higher interest receipts throughout the financial year in the revenue account monitoring reports. This is because we had more cash available to invest than we had budgeted.

7.6 Our budgeted debt interest payable was £5.081 million for the HRA, and outturn was £5.076 million. GF budget for interest payable was £15,000 and outturn was £71,329. The increase was due to a long term loan taken out with another local authority and temporary loan interest which is offset by increased investment income.

7.7 We further increased the diversification in the investment portfolio, by investing in corporate bonds, other local authorities and longer-term covered bonds. The use of covered bonds increased the security of our portfolio.

7.8 All our external funds are distributing funds, and they achieved an overall weighted average return of 3.39%, split as:

Fund	Balance at 31 March £000	Average return	Type of fund
M&G	2,164,300	3.36%	Equity focused
Schroders	965,380	6.96%	Equity focused with at least 80% on FTSE all share companies
SWIP	1,859,603	2.12%	Fixed income focussed
Funding Circle	408,226	2.79%	Investments in SMEs up to a max of £2,000
Payden	5,010,025	0.93%	Cash plus
CCLA	6,181,986	5.42%	Property

7.9 The value of the funds can go up and down. In the case of Schroders and SWIP the capital value has decreased by £175,000 in total, but is offset by an increase in the value of the other funds. Our external fund portfolio is now very diverse and we invest in a range of products and markets. The fund with the largest increase in capital value was the CCLA property fund - £619,000 in 2014-15.

7.10 The actual underlying need to borrow for the GF capital programme was £1.6 million, which is lower than budgeted of £37.249 million because of slippage in the capital programme. We are continuing to support service managers to ensure that, moving forward, the scheduling of schemes in the capital programme is more accurate and kept up to date when project timescales change.

7.11 The amount of internal borrowing actually undertaken was £7.459 million, which was the purchase of investment property. The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing and using capital expenditure on property means we can write down MRP over a longer life than other capital projects.

7.12 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £226.975 million

Abolition of the PWLB

7.13 In January 2015, the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the PWLB. HMT confirmed, however, that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. We intend to use the PWLB's replacement as a potential source of borrowing if required.

Benchmarking and performance indicators

CIPFA benchmarking

7.14 The Council is a member of the CIPFA treasury management benchmarking club.

Arlingclose benchmarking

7.15 Arlingclose provide benchmarking data across their clients. It highlights the effect of changes in our investment portfolio and compares on the basis of size of investment, length of the investment and the amount of credit risk being taken.

7.16 The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (as at 31 March 2015), shows our average rate of investments for our total portfolio as being 1.68% against the Arlingclose client universe of 1.23%.

	Internally managed	Externally managed	Total portfolio
Guildford	0.70%	7.59%	1.68%
Client Universe	0.68%	6.80%	1.23%

7.17 The difference in our return as part of the benchmarking and our own return is due to a different calculation in the way Arlingclose put the benchmarking return together.

Internal performance indicators

7.18 We set the following treasury management performance indicators for 2014-15

Indicator	Target	Actual	Variance
Cashflow investment returns above base rate	0.16%	0.13%	-0.03%
Long-term investment returns above base rate	0.00%	0.40%	0.40%
Externally managaged funds above base rate	2.58%	4.92%	2.34%
Combined funds above base rate	0.53%	0.80%	0.27%
% of daily balances within the range +/- £50,000	70.00%	77.34%	7.34%
The daily current account bal to be +/- £50,000	+/-£50,000	£8,694	

7.19 Our overall performance is slightly above budget, which is mainly due to us having dividends from external funds that were not included in the budget.

7.20 The Council’s daily bank balance target was +/- £50,000 for 70% of days in the year. The average balance for the year was £8,694 and 77.34% of days were +/- £50,000 so we were well within our target.

8. Compliance with treasury and prudential indicators

8.1 The CIPFA Prudential Code and treasury management code of practices require local authorities to set treasury and prudential indicators.

8.2 The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure

- capital expenditure plans are affordable

- all external borrowing and other long-term liabilities are within prudent and sustainable limits
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the Council is accountable by providing a clear transparent framework

8.3 The Prudential Code requires the Council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

8.4 We took a report to Council on 9 December 2014, revising our minimum credit limit to BBB+ for counterparties. Any investment in a counterparty with a BBB+ rating will be classed as a non-specified investment. We therefore, increased the relevant non-specified limit in the strategy. We also added reverse repurchase investments (repo) into our investment strategy as a potential investment type.

8.5 Officers can confirm that the Council has complied with its prudential indicators for 2014-15 (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices, other than a breach of being over our principal sum invested for 364 days limit by £1.5 million for 7 days during the year.

8.6 Section 6 outlines the approved treasury management strategy. We have adhered to the strategy by:

- financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing
- taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield
- maintaining adequate diversification between counterparties
- forecasting and managing cash flow to preserve the necessary degree of liquidity

9. Risk and Performance

9.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

9.2 The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable, and sustainable, and our treasury practices demonstrate a low risk approach.

9.3 Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and, whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

9.4 We set a target return of 1.02% for 2014-15 and returned 1.03%. This shows that we did not increase the level of risk taken over what we had budgeted for.

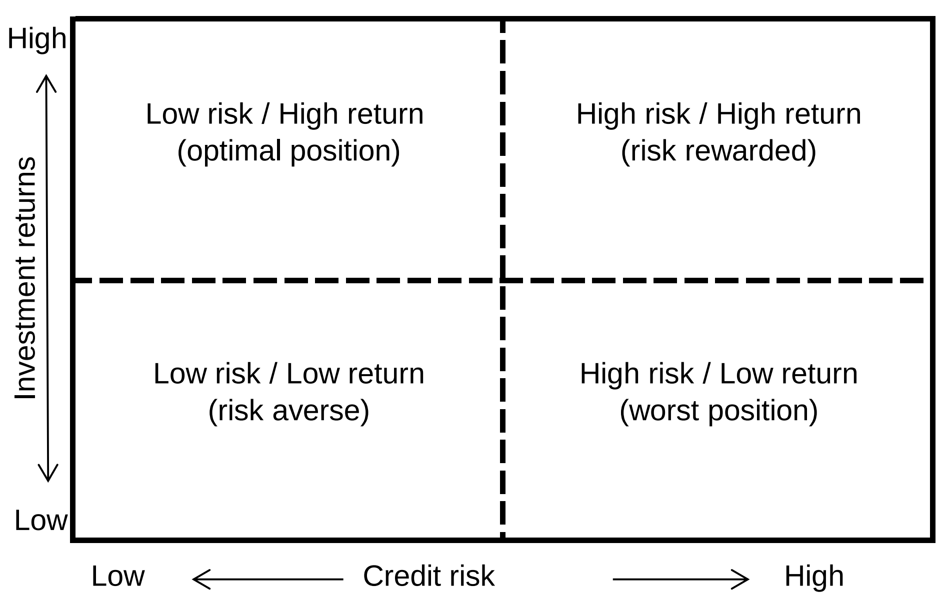
9.5 If the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Therefore, to compensate the GF for this, we apply a credit risk adjustment to the rate of interest we apply on HRA balances and reserves. The HRA, therefore, receives a lower interest rate than the weighted average investment return for the year.

9.6 The Council invests in externally managed funds. These are more volatile than cash investments, but can come with a higher return. Officers continually review our funds to ensure they still have a place in our portfolio. We view most of our funds over a three to five year time horizon to take account of their potential volatility – they are not designed to be short-term investments.

Credit developments and credit risk management during 2014-15

9.7 Security of our investments is our key objective when making treasury management decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. **Appendix 5** explains the scoring in more detail.

9.8 This is a graphical representation used in the Arlingclose benchmarking



9.9 Typically we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, we were in line with other council's, and were slightly in the low risk/low return position. We have moved from high risk/low return in March 2014 because of the introduction of more secure investment types in our portfolio – covered bonds and other local authorities. We increased our return and our diversification further by using corporate bonds.

9.10 We set our minimum long-term credit rating as A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

9.11 The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time-weighted basis is well within our minimum credit quality limit of 7, ending the year at 4.38 and 2.30.

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-14	5.25	A+	5.53	A	39
30-06-14	5.10	A+	5.27	A+	105
30-09-14	4.91	A+	5.53	A	78
31-12-14	4.74	A+	4.67	A+	137
31-03-15	4.38	AA-	2.30	AA+	188

9.12 We have continued to increase the security, by credit rating, throughout the year, and have extended the average life of the portfolio in doing so. The increased length is as a result of investing in covered bonds which, at primary issue, are typically 3-5 years, which also enhances the security of our portfolio.

10. Minimum Revenue Provision (MRP)

10.1 The Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008 (SI No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options of applying MRP available to us:

- Asset life method
- Depreciation method
- any other prudent method

10.2 Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

10.3 The revised MRP policy was approved on 20 January 2015 from 2014-15. It stated that:

- we will use the asset life method as our main method of applying MRP, and will use the annuity method for investment property.
- where appropriate, for example in relation to capital expenditure on development, we may use an annuity method starting in the year after the asset becomes operational
- where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained. Therefore, where construction, major refurbishment or redevelopment of an asset occurs, we will not charge MRP during the period of construction, refurbishment or redevelopment. MRP will not be charged from the date a property is vacant (as long as the development starts within 12 months of the vacation date). MRP will be charged in the financial year after the asset has returned to operational use.
- where expenditure on schemes are pending receipt of an alternative source of finance (for example capital receipts), we will not charge MRP.
- the MRP guidance recommends a life of 50 years for freehold land. However, we feel that as land often has an infinite economic life, charging MRP over 75 years is more realistic whilst maintaining prudency. If we were to purchase land for development purposes, we will also apply an estimated life of 75 years which is at least as great as it will be if a new building was placed on it. We believe that new buildings or similar structures will have an estimated life of 75 years.
- where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to reduce the CFR.
- for investments classed as capital expenditure, we will apply a 100 year life.
- for assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

10.4 The unfinanced capital expenditure in 2014-15 of £7.459 million related to investment property purchase and we will use the annuity method as per the agreed policy.

11. External service providers

11.1 The Council reappointed Arlingclose as our treasury management advisors in March 2015. The contract is for a period of 7 years. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

11.2 The Council is clear that overall responsibility for treasury management remains with the Council.

12. Training

12.1 CIPFA's revised code of practice suggests that best practice is achieved by all Councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and that they should fully understand their roles and responsibilities.

12.2 The DCLG's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the Council's treasury management staff for training in investment management.

12.3 Following the revised CIFPA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we set up a Treasury Management Panel. The panel met in the year to discuss the treasury management strategy report, the treasury and prudential indicators and the revised treasury strategy.

12.4 We have also changed the scrutiny and reporting of the treasury management strategy from the Corporate Improvement Scrutiny Committee to the Corporate Governance and Standards Committee who will review this annual report prior to Council.

12.5 Officer training is undertaken on a regular basis, by attending workshops held by our treasury management advisors, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken as and when required. Those involved in treasury management are either a fully qualified accountant or AAT qualified. The main post holder responsible for the treasury management function holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIFPA.

12.6 Training to the Councillors on the Corporate Governance and Standards Committee and new Councillors will be undertaken during 2015-16.

13. Financial Implications

13.1 The detailed financial implications are summarised above and in **Appendix 1**.

14. Legal Implications

14.1 A variety of professional codes, statutes and guidance regulate the Council's treasury management activities. These are:

- the Local Government Act 2003 ("the Act") provides the powers to borrow and invest. It also imposes controls and limits on these activities
- the Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. The HRA debt cap is the only restriction that applied in 2014-15.
- Statutory Instrument 3146 2003 ("The SI"), as amended, develops the controls and powers within the Act

- the SI requires the Council to undertake any borrowing with regard to the Prudential Code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years
- the SI also requires the Council to operate the overall treasury management function with regard to the CIPFA treasury management code of practice
- under the terms of the Act, the Government issued “Investment Guidance” to structure and regulate the Council’s investment activities. The emphasis of the guidance is on the security and liquidity of investments.

15. Human Resource Implications

15.1 There are no human resource implications arising from this report other than the training discussed in section 12, which is already in place.

16. Conclusion

16.1 The Council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

16.2 We have also complied with the requirements of the Prudential Code by setting, monitoring and staying within the prudential indicators set.

17. Background Papers

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes (2011 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2011 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2013 Edition)
- Treasury management Annual Strategy Report (and revised version) 2014-15 and Prudential Indicators 2014-15 to 2016-17

18. Appendices

- Appendix 1 – detailed treasury activity, treasury and prudential indicators
- Appendix 2 – schedule of investments at 31 March 2015

- Appendix 3 – economic background
- Appendix 4 – money market rates
- Appendix 5 – credit score analysis
- Appendix 6 – credit rating equivalents and definitions
- Appendix 7 – background to externally managed funds
- Appendix 8 – glossary

Treasury management activity, treasury and prudential indicators 2014-15

1. Introduction

1.1 The treasury management service is an important part of the overall financial management of the Council. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions.

1.2 Strict regulations, such as statutory requirements and the CIFPA treasury management code of practice (the TM Code) govern the Council's treasury activities. We adopted the TM Code on 13 June 2002 and adopted a revised treasury management policy statement in February 2012. This adoption meets the requirement of one of the main prudential indicators.

2. Treasury management activity

2.1 The Council has an integrated treasury management strategy and manages its cash as a whole in accordance with its approved strategy. Therefore, overall borrowing may arise because of all the financial transactions of the Council (for example, borrowing for cash flow purposes) and not just those arising from capital expenditure reflected in the Capital Financing Requirement (CFR).

Investments

2.2 The Department of Communities and Local Government (DCLG) Investment Guidance requires local authorities to focus on security and liquidity rather than yield.

2.3 Security of capital remains our main objective when placing investments. We maintained this during 2014-15 by following our investment policy, as approved in our treasury management strategy 2014-15, which defined "high credit quality" counterparties as those having a long-term credit rating of A- or higher.

2.4 Investments during the year included

- investments in AAA rated constant net asset money market funds
- call accounts and deposits with banks and building societies systemically important to each country's banking system. We did place some investments in overseas banks, but predominately in UK counterparties.
- other local authorities
- corporate bonds
- non-rated building societies

- covered bonds
- pooled funds without a credit rating, but only those subject to an external assessment by Arlingclose

2.5 We divided our investments into three types

- short-term (less than one-year) internally managed cash investments
- long-term internally managed investments
- externally managed funds

2.6 Cash balances consisted of working cash balances, capital receipts and Council reserves.

2.7 The table below shows our investment portfolio, at 31 March 2015, compared to 31 March 2014. **Appendix 2** contains a detailed schedule of investments outstanding at 31 March 2015.

Investment details	**Balance at 31-03-14 £m**	**Weighted Avg Return for Year**	**Balance at 31-03-15 £m**	**Weighted Avg Return for Year**
Internally Managed Investments				
Fixed Investments < 1 year to cover cash flow	20.50	0.77%	50.50	0.64%
Corporate bonds	0.00	0.00%	3.50	0.94%
Certificates of deposit	12.00	0.51%	8.00	0.67%
Notice Accounts	19.02	0.84%	16.08	0.71%
Call Accounts	4.75	0.75%	3.03	0.53%
Money Market Funds	13.65	0.43%	6.04	0.45%
Long term investments > 1 year	0.00	0.00%	10.15	0.91%
Externally Managed Funds				
Payden & Rygel	4.99	0.89%	5.01	0.93%
Funding circle	0.00	0.00%	0.41	2.79%
CCLA	5.44	5.14%	6.18	5.42%
SWIP	1.99	0.00%	1.86	2.12%
M&G	2.08	0.00%	2.16	3.36%
Schroders	0.95	0.00%	0.97	6.96%
Total Investments	**85.37**	**0.96%**	**113.89**	**1.03%**

2.8 Our level of investments increased during 2014-15, and we achieved a higher return than last year. Despite interest rates remaining low, we slightly over achieved our return against our target of 1.02%.

Security of investments

2.9 Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swap prices; financial statements information on potential government support and reports in the quality financial press.

2.10 The minimum long-term counterparty credit rating approved for 2014-15 was A-/A3 across all three main credit rating agencies (Fitch, S&P and Moody’s).

This was then revised to BBB+ in the revised treasury strategy approved by Council in December 2014. This was because the credit rating agencies indicated they would review all banks as a result of the UK implementing the final bail in provisions of the EU Bank Recovery and Resolution Directive, a year ahead of most other countries. Our definition of 'high credit quality' of A- remained unchanged – any investments made falling into the BBB+ category would be classed as a non-specified investment.

2.11 For added security in the portfolio, we added the ability to be able to invest in reverse repurchase agreements (repo) as this type of investment would sit outside the bail-in regime.

Liquidity of investments

2.12 In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity using money market funds, call accounts, the maturity profile of fixed investments and certificates of deposits and short-term borrowing from other local authorities.

2.13 We use Treasurynet as our daily cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

Yield of investments

2.14 The Council sought to optimise returns commensurate with its objective of security and liquidity. The Bank of England base rate was maintained at 0.50% throughout the year. Short-term money market rates also remained at very low levels, which continued to have an impact on investment returns.

2.15 We invested in corporate bonds during the year which increased returns, and also longer-term investments in covered bonds, which increased the return of the portfolio and the duration.

2.16 The Council's budgeted investment income for 2014-15 was £0.7 million and actual interest was £1.16 million. This includes £198,000 income from external funds that were not included the budget.

Externally managed funds

2.17 We estimated to have substantial cash balances over the medium-term (our "core" cash), and as such we have continued investing in pooled (cash-plus, bond, equity, and property) funds. These funds, which are managed by professional fund managers, have allowed us to diversify into asset classes other than cash without the need to own and manage the underlying investments. They have no defined maturity date, but are available for withdrawal, some with a notice period.

2.18 We regularly monitor all our external funds' performance and continued suitability in meeting our investment objectives.

Borrowing and debt management

2.19 The Council's debt portfolio is detailed in the table below. Our loan portfolio increased by £19.7 million, of which £5m was a long-term local authority loan and the rest borrowing for cash flow purposes.

Interest calc	Lender	Repayment method	Principal £'000	Initial loan period (yrs)	Period remaining years	Maturity date	Rate
Long-term							
Fixed	PWLB	EIP	1,380	10	6.0	2021	3.60%
Variable	PWLB	Maturity	45,000	10	7.0	2022	0.70%
Fixed	PWLB	Maturity	10,000	12	9.0	2024	2.70%
Fixed	PWLB	Maturity	10,000	13	10.0	2025	2.82%
Fixed	PWLB	Maturity	10,000	14	11.0	2026	2.92%
Fixed	PWLB	Maturity	10,000	15	12.0	2027	3.01%
Fixed	PWLB	Maturity	25,000	17	14.0	2029	3.15%
Fixed	PWLB	Maturity	25,000	20	17.0	2032	3.30%
Fixed	PWLB	Maturity	25,000	25	22.0	2037	3.44%
Fixed	PWLB	Maturity	15,000	29	26.0	2041	3.49%
Fixed	PWLB	Maturity	17,435	30	27.0	2042	3.50%
Fixed	Lancashire Police	Maturity	5,000	3	2.0	2017	1.50%
Short-term							
Fixed	Gwent Police	Maturity	3,000	0.35	0.0	2015	0.42%
Fixed	Vale of Glamorgan	Maturity	2,000	0.50	0.2	2015	0.50%
Fixed	Bath & NE Somerset DC	Maturity	5,000	1.00	0.8	2016	0.60%
Fixed	Caerphilly CBC	Maturity	5,000	0.17	0.1	2015	0.30%
Total			**213,815**				

2.20 The Council took out a long-term loan from Lancashire Police because of the expenditure projections in the capital programme and we wanted to take advantage of the good rate that was on offer. Our chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

2.21 The rate on the variable rate loan is the average for the year.

2.22 We also had some short-term loans outstanding at the end of the year which we took out for cash flow purposes. Temporary and short-dated loans borrowed during the year from other local authorities remained affordable and attractive.

2.23 Affordability and the "cost of carry" remained important influences on our long-term borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would be invested at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain at least over the next two years, lower than long-term rates, we decided it was more cost effective to used internal resources and borrow short-term to medium-term instead.

2.24 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring long-term borrowing into future years when long-term rates are forecast to rise. Arlingclose assists us with this ‘cost of carry’ and breakeven analysis.

3. Treasury and Prudential Indicators

3.1 The CFO confirms that we have complied with all but one of our Prudential Indicators for 2014-15, which were approved in February 2014 as part of the treasury management strategy statement. Our limit for investments over 364 days was set at £9 million. For 7 days in March we inadvertently breached that limit by £1.1 million, however we were not in breach at the reporting date of 31 March 2015. The reason for this is because we had more cash than we expected when the prudential indicators were set and there have been no adverse financial implications of the breach. As a result of this, we are now including this prudential indicator on all long-term deal tickets signed by the Head of Financial Services to ensure there is no breach in future.

3.2 The CFO also confirms that we have complied with our Treasury Management Policy Statement and Treasury Management Practices during 2014-15.

3.3 One of the key indicators is the adoption of the CIPFA Treasury Management Code. It demonstrates that the Council has adopted the principles of best practice. The Council approved the adoption of the CIFPA Treasury Management Code at its full Council meeting on 13 June 2002, and approved the revised Treasury Management Policy on 9 February 2012.

Balance sheet and treasury position prudential indicator

3.4 The Capital Financing Requirement (CFR) measures the Council’s underlying need to borrow for a capital purpose. Over the medium-term, borrowing must only be for a capital purpose, although in the short-term, we can borrow for cash flow purposes, which do not affect the CFR.

3.5 The Council’s CFR for 2014-15 is shown in the following table

Capital Financing Requirement	2014-15 Approved Estimate £000	2014-15 Revised Estimate £000	2014-15 Actual £000
HRA			
Opening balance (1 Apr 14)	196,664	196,664	196,664
Movement in year: Appropriations	0	0	210
Movement in year: Unfinanced captial expenditure	0	0	0
Movement in year: Voluntary Revenue Provision	0	0	(210)
Closing balance (31 Mar 15)	196,664	196,664	196,664
General Fund			
Opening balance (1 Apr 14)	21,297	23,495	23,495
Movement in year: Appropriations	0	0	(210)
Movement in year: Unfinanced captial expenditure	37,249	8,561	7,460
Movement in year: MRP	(450)	(494)	(434)
Closing balance (31 Mar 15)	58,096	31,562	30,311
Total			
Opening balance (1 Apr 14)	217,961	220,159	220,159
Movement in year: Appropriations	0	0	0
Movement in year: Unfinanced captial expenditure	37,249	8,561	7,460
Movement in year: MRP	(450)	(494)	(434)
Movement in year: VRP	0	0	(210)
Closing balance (31 Mar 15)	254,760	228,226	226,975
Balances and Reserves	(70,332)	(99,878)	(113,883)
Cumulative net borrowing requirement / (investments)	**184,428**	**128,348**	**113,092**

3.6 We appropriated land from the GF to the HRA for the Guildford Corporation Club site. This took the HRA over its debt cap, so we made a voluntary revenue provision for debt repayment.

3.7 The GF unfinanced capital expenditure relates to the cost of investment property purchase. This is much lower than budgeted because of slippage in the capital programme – a lot of this slippage was expected in the year, which is shown by the revised estimate.

3.8 We budgeted an underlying need to borrow of £37.249 million for 2014-15 and our actual underlying need to borrow was £1.6 million because of slippage in the capital programme. The amount actually internally borrowed was £7.46 million because we chose to internally borrow for the investment property purchases as it can be written down over a longer life than other capital projects in the programme. This leaves some capital resources to fund shorter life projects in 2015-16.

Gross debt and the CFR

3.9 We monitor the CFR to gross debt continuously to ensure that, over the medium term, borrowing is only for a capital purpose and does not exceed the CFR. This is a key indicator of prudence. We will report any deviations to the CFO for investigation and appropriate action. The following table shows the Council is in a net internal borrowing position and gross debt does not exceed the CFR over the period.

Gross Debt and the CFR	2014-15 Actual £000	2015-16 Estimate £000	2016-17 Estimate £000
General Fund CFR	30,311	89,648	112,684
HRA CFR	196,664	196,664	196,664
Total CFR (at 31 March)	**226,975**	**286,312**	**309,348**
Gross External Borrowing	(213,815)	(198,585)	(204,355)
Net (external) / internal borrowing position	**13,160**	**87,727**	**104,993**

3.10 The 2015-16 and 2017-18 estimates are based on what was approved in the treasury management strategy in February 2015.

Capital expenditure prudential indicator

3.11 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on council tax or housing rent levels for the HRA.

3.12 The following table shows capital expenditure in the year, compared to the original estimate approved by the Executive in January 2014.

Projects	Original Estimate (£'000)	Actual (£'000)	Variance (£'000)
Housing Revenue Account			
HRA Capital Programme	21,710	11,665	(10,045)
Total Housing	**21,710**	**11,665**	**(10,045)**
General Fund			
Affordable Housing	2,181	2,123	(58)
Investment in Millmead improvements	1,304	232	(1,072)
Void investment property works	100	16	(84)
Asset investment fund	25,000	7,460	(17,540)
Guildford Park	500	0	(500)
Provisional schemes	8,132	0	(8,132)
Energy schemes	270	37	(233)
IT renewals	750	482	(268)
Schemes at Spectrum	311	0	(311)
Other General Fund Projects	2,827	3,390	563
Total General Fund	**41,375**	**13,740**	**(27,635)**
Total Capital Programme	**63,085**	**25,405**	**(37,680)**

3.13 This table shows variances to the original approved estimate and does not take account of supplementary estimates in the year. The other variances are due to slippage or not being spent in 2013-14 and being moved into 2014-15.

3.14 The following table shows the financing of capital expenditure in the year, compared with the original approved estimate.

CAPITAL EXPENDITURE - SUMMARY	Original Estimate (£'000)	Actual (£'000)
General Fund Capital Expenditure (unsupported spend)		
- Main programme	37,421	10,120
- Reserve & s106 Capital Schemes	1,773	1,496
- General Fund Housing	2,181	2,123
HRA Capital expenditure (unsupported spend)		
- Main programme	21,710	11,665
Total Capital Expenditure	**63,085**	**25,404**
General Fund Capital Expenditure Financed by:		
- Borrowing/Use of Balances	(37,155)	(7,460)
- Capital Receipts	0	(3,831)
- Capital Grants/Contributions	(765)	(1,356)
- Capital Reserves/Revenue	(3,455)	(1,092)
HRA Capital Expenditure Financed by:		
- Borrowing/Use of Balances	0	0
- Capital Receipts	(250)	(444)
- Capital Grants/Contributions	0	(600)
- Capital Reserves/Revenue	(21,460)	(10,621)
Financing - Totals	**(63,085)**	**(25,404)**

3.15 GF internal borrowing was lower than budgeted because of slippage in the capital programme, and an increase in the opening balance of available capital resources.

3.16 There was an appropriation from the GF to the HRA, which meant the HRA exceeded its debt cap. It therefore made a voluntary revenue provision to bring the CFR back in line with the debt cap.

Incremental impact of capital investment decisions prudential indicator

3.17 This is an indicator of affordability. It shows the impact of the approved capital programme on council tax and housing rent levels. We calculate this by taking the cost of the capital programme multiplied by the average investment rate for the year and then comparing it to the outcome to the council tax base for the GF and for the HRA the property base.

3.18 This indicator shows the revenue impact of capital schemes. It excludes financing costs, but includes the loss of investment interest (because we used cash to fund the programme rather than being invested) and any revenue implications resulting from the capital programme.

3.19 Capital investment decisions do not affect the weekly housing rent charge as the Council sets its rents in line with the policy laid down by the CLG. There is also no variation to council tax once it has been set. We calculate this prudential indicator on an actual basis for comparative purposes.

	2014-15 Approved £	2014-15 Outturn £
Cost of Capital Programme on Council Tax - Band D	7.19	2.40
Cost of Housing Capital Programme Weekly Housing Rents	0.79	0.46

3.20 The impact for both the HRA and the GF is lower than approved because of slippage in the capital programme.

Ratio of financing costs to the net revenue stream prudential indicator

3.21 This is an indicator of affordability and highlights the revenue impact of capital expenditure by identifying the proportion of the revenue budget required to meet the financing costs associated with capital spending. Financing costs include interest on borrowing, MRP, premium or discount on loans repaid early, investment income and depreciation where it is a real charge.

3.22 Depreciation is not a real charge to the GF, but has been to the HRA since April 2012.

3.23 The ratio is based on costs net of investment income.

3.24 The net revenue stream for the GF is the total budget requirement and for the HRA is total income. Where the figures are negative, it is because there is a net investment position (we have more investments than debt).

	2014-15 Original Estimate	2014-15 Actual
General Fund	1.77%	-3.22%
HRA	31.98%	33.64%

3.25 The GF is lower than originally estimated because investment income is higher than budgeted, and the HRA is higher because the depreciation charge is higher.

3.26 The figure for the GF is negative because interest received is higher than financing costs (interest payable, debt management costs and MRP).

The authorised limit prudential indicator

3.27 The Local Government Act 2003 requires the Council to set an affordable borrowing limit, irrespective of the indebted status. This is a statutory limit, which we cannot breach.

3.28 This limit is the maximum amount of external debt we can legally owe at any one time. It is expressed gross of investments and includes capital expenditure plans, the capital financing requirement and cash flow expenditure. It also provides headroom over and above for unexpected cash movements.

3.29 The limit was set at £401 million for 2014-15 and the highest level of debt in the year was £218.93 million.

3.30 We measure the levels of debt on an on-going basis during the year for compliance. The CFO confirms there were no breaches to the authorised limit in 2014-15.

The operational boundary prudential indicator

3.31 The operational boundary, based on the same estimates as the authorised limit, reflects the most likely, prudent but not worst case scenario. It does not allow for additional headroom included in the authorised limit.

3.32 The limit was set at £271 million for 2014-15 and the highest level of debt in the year was £217.93 million.

Upper limit for fixed and variable interest rate exposures treasury indicator

3.33 This indicator is set to control our exposure to interest rate risk. We calculate the exposures on a net basis (fixed rate debt net of fixed rate investments). The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on the investment portfolio. We take fixed rate to be if it was taken out as a fixed rate loan/investment.

Net Debt / (Investments) on Principal outstanding	2014-15 Approved £000	2014-15 est outturn £000
Limits on fixed interest rates	259,030	108,045
Limits on variable interest rates	(13,740)	(9,327)

3.34 The above table shows that, at its peak, our exposures was well within our target.

3.35 Variable rate investments were higher than variable rate debt, which has resulted in a negative figure.

Maturity structure of fixed rate borrowing treasury indicator

3.36 The aim of this indicator is to control our exposure to refinancing risk (large concentrations of fixed rate debt needing refinancing at once). We calculate this as the amount of fixed rate borrowing maturing in each period as a percentage of total fixed rate borrowing.

	Upper Limit	Lower Limit	Actual at 30 March 2015	Value of loans maturing
Under 12 months	100%	0%	9.02%	15,230,000
12-24 months	100%	0%	0.14%	230,000
24 months to 5 years	100%	0%	3.37%	5,690,000
5-10 years	100%	0%	6.06%	10,230,000
10-15 years	100%	0%	32.58%	55,000,000
15-20 years	100%	0%	14.81%	25,000,000
20-25 years	100%	0%	14.81%	25,000,000
25-30 years	100%	0%	19.21%	32,435,000
Over 30 years	100%	0%	0.00%	0
Total Fixed Rate Loans				**168,815,000**

3.37 The above table shows the amount of debt maturing in each period and its percentage of total fixed rate loans. The limits were set to give us flexibility for drawing down new loans on a fixed or variable rate basis. If a low upper limit for fixed rate debt were set, the Council would be giving itself a greater exposure to interest rate changes by having more variable rate debt. The upper limit for under 12 months was set to cover any short-term borrowing for cash flow purposes and for allowing for the principal loan repayments falling in that period. There is very little fixed rate debt maturing before 10 years, which gives the Council stability in its interest payments over that time. The first fixed rate loan matures in 2024.

Actual external debt treasury indicator

3.38 This indicator comes directly from our balance sheet. It is the closing balance for actual gross borrowing (short and long term) plus other deferred liabilities. It is measured in a manner consistent for comparison with the authorised limit and operational boundary.

	External debt as at 31-03-14 £'000	External debt as at 31-03-15 £'000
Borrowing	194,045	213,815
Other long term liabilities	0	0
Total	**194,045**	**213,815**

3.39 Actual external debt increased due to short-term and a small level of long-term borrowing from other local authorities.

HRA limit of indebtedness prudential indicator

3.40 This indicator compares the actual debt of the HRA to the debt cap imposed by the Government.

	2014-15 Actual £'000	2015-16 Estimate £'000	2016-17 Estimate £'000	2017-18 Estimate £'000
HRA CFR	196,664	196,664	196,664	196,664
HRA Debt Cap	196,665	196,665	196,665	196,665
Balance available	**(1)**	**(1)**	**(1)**	**(1)**

3.41 The table shows that the council operated inside the debt cap for 2014-15. We need to review our HRA CFR continually to ensure that, should the need to start increasing the CFR arise, there are balances and reserves to fund the capital expenditure to ensure the debt cap is not breached. The debt cap could stop the council building homes, if we do not have enough reserves to fund our building programme.

Upper limit for total principal sums invested over 364 days

3.42 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

3.43 Our limit was set at £9 million, and our maximum exposure was £10.1 million. We were over our limit for 7 days (from 17 March to 23 March), when an investment originally made for longer than a year became under a year. We ended the year with an exposure of £8.1 million.

Schedule of investments at 31 March 2015

Counterparty	Principal £	Rate	Start	End
Fixed investments				
Nationwide	1,000,000	0.8100%	02-Apr-14	01-Apr-15
NRBS Darlington BS	1,000,000	0.6500%	02-Oct-14	02-Apr-15
Santander	1,000,000	0.7700%	11-Aug-14	10-Apr-15
Barclays Bank	2,000,000	0.4640%	08-Jan-15	20-Apr-15
OCBC	2,000,000	0.7500%	24-Jul-14	24-Apr-15
DBS	2,000,000	0.6500%	04-Nov-14	05-May-15
Lloyds	2,000,000	0.9500%	08-May-14	07-May-15
OCBC	2,000,000	0.5500%	07-Nov-14	07-May-15
Santander	1,000,000	0.7400%	11-Sep-14	11-May-15
National Australia Bank (NAB)	5,000,000	0.5500%	10-Nov-14	11-May-15
Lloyds	1,000,000	0.9500%	14-May-14	13-May-15
LA - Birmingham City Council	3,000,000	0.5500%	20-Mar-15	20-May-15
NRBS National Counties BS	1,000,000	0.5500%	09-Feb-15	20-May-15
NRBS Scottish	1,000,000	0.4700%	12-Feb-15	22-May-15
LA - Barnsley MBC	5,000,000	0.5500%	10-Nov-14	26-May-15
Lloyds	2,000,000	0.9500%	09-Jun-14	08-Jun-15
Santander	1,000,000	0.7800%	11-Sep-14	11-Jun-15
Nationwide	1,000,000	0.7700%	13-Oct-14	15-Jun-15
DBS	3,000,000	0.6000%	18-Dec-14	18-Jun-15
Nationwide	2,000,000	0.8200%	02-Oct-14	02-Jul-15
OCBC	1,000,000	0.7000%	15-Oct-14	15-Jul-15
LA - Lancashire CC	2,000,000	0.5900%	04-Feb-15	04-Aug-15
Santander	2,000,000	0.8700%	10-Oct-14	10-Aug-15
LA - North Tyneside MBC	3,000,000	0.7800%	29-Dec-14	24-Dec-15
LA - West Dunbartonshire Council	2,500,000	0.7000%	17-Mar-15	15-Mar-16
NRBS - Cumberland BS	1,000,000	0.5400%	27-Mar-15	03-Jul-15
	50,500,000			
Certificates of deposit				
Standard Chartered	2,000,000	0.6700%	29-Oct-14	29-Apr-15
Rabobank	1,000,000	0.8200%	13-May-14	12-May-15
Deutsche	2,000,000	0.8500%	05-Jun-14	04-Jun-15
Standard Chartered	1,000,000	0.6900%	04-Dec-14	04-Jun-15
Rabobank	1,000,000	0.9300%	04-Jul-14	03-Jul-15
Standard Chartered	1,000,000	0.6900%	09-Feb-15	07-Aug-15
	8,000,000			

Appendix 2

Counterparty	Principal £	Rate	Start	End
Long term investments				
Leeds BS (3mth LIBOR+40bp)	2,000,000	0.9665%	01-Oct-14	01-Oct-19
Yorkshire BS (3mth LIBOR+18bp)	2,000,000	0.7400%	16-Dec-14	23-Mar-16
Leeds BS (3mth LIBOR+27bp)	3,000,000	0.8300%	09-Feb-15	09-Feb-18
Yorkshire BS (4.75% fixed)	1,000,000	1.2602%	16-Feb-15	12-Apr-18
Coventry (mth LIBOR + 30bp)	2,000,000	0.8600%	17-Mar-15	17-Mar-20
	10,000,000			
Corporate bonds				
Heathrow Funding Ltd	1,000,000	0.8750%	12-Dec-14	08-Jun-15
United Utilities Water Ltd	2,101,000	0.9980%	16-Dec-14	29-Dec-15
	3,101,000			
Notice Accounts				
Barclays 100 day	6,000,000			
Close brothers (1 month)	5,075,171			
Handlesbanken (10 day)	1,000,000			
Handlesbanken (35 day)	4,000,000			
	16,075,171			
Call accounts				
HSBC business reserve	3,034,404			
	3,034,404			
Money market funds				
Federated	61,000			
Ignis	3,905,000			
Aberdeen	2,076,000			
	6,042,000			
Total internally managed	**96,752,574**			
Externally managed				
Payden	5,010,025			
CCLA	6,181,986			
SWIP	1,859,603			
M&G	2,164,300			
Schroders	965,380			
Funding circle	408,434			
Total externally managed	**16,589,728**			
Total investments	**113,342,303**			

Economic background – commentary from Arlingclose

Growth and Inflation: The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to $44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

Labour Market: The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

UK Monetary Policy: The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.

Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank (ECB) lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by $10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough the weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

Market reaction: From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission though into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

Counterparty update – additional information

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on 15 April 2015. Following this, credit rating agencies assumed that potential extraordinary government support available to the bank's senior secured bond holders will diminish. Moody's revised the Outlook of several UK and EU banks from Stable to Negative and Standard and Poors (S&P) placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

S&P also revised the Outlook for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. They will act, if in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and Small and Medium Enterprises (SMEs) above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt a similar approach in due course.

In December, the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS has updated plans to issue Tier 1 capital. The Co-operative Bank failed the test.

The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25 billion (£20 billion) in total – none of the failed banks were on our lending list.

Rates

Money Market Data and PWLB Rates

The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.

Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014		0.50		0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014		0.50		0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014		0.50		0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014		0.50		0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014		0.50		0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014		0.50		0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014		0.50		0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014		0.50		0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014		0.50		0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014		0.50		0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015		0.50		0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015		0.50		0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015		0.50		0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
Average		**0.50**		**0.39**	**0.44**	**0.43**	**0.50**	**0.67**	**0.95**	**1.09**	**1.38**	**1.79**
Maximum		**0.50**		**0.50**	**0.62**	**0.43**	**0.51**	**0.81**	**1.00**	**1.38**	**1.77**	**2.26**
Minimum		**0.50**		**0.24**	**0.36**	**0.42**	**0.46**	**0.56**	**0.84**	**0.80**	**0.96**	**1.18**
Spread		**--**		**0.26**	**0.26**	**0.01**	**0.05**	**0.25**	**0.16**	**0.58**	**0.81**	**1.08**

Appendix 4

Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	Low	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	Average	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48

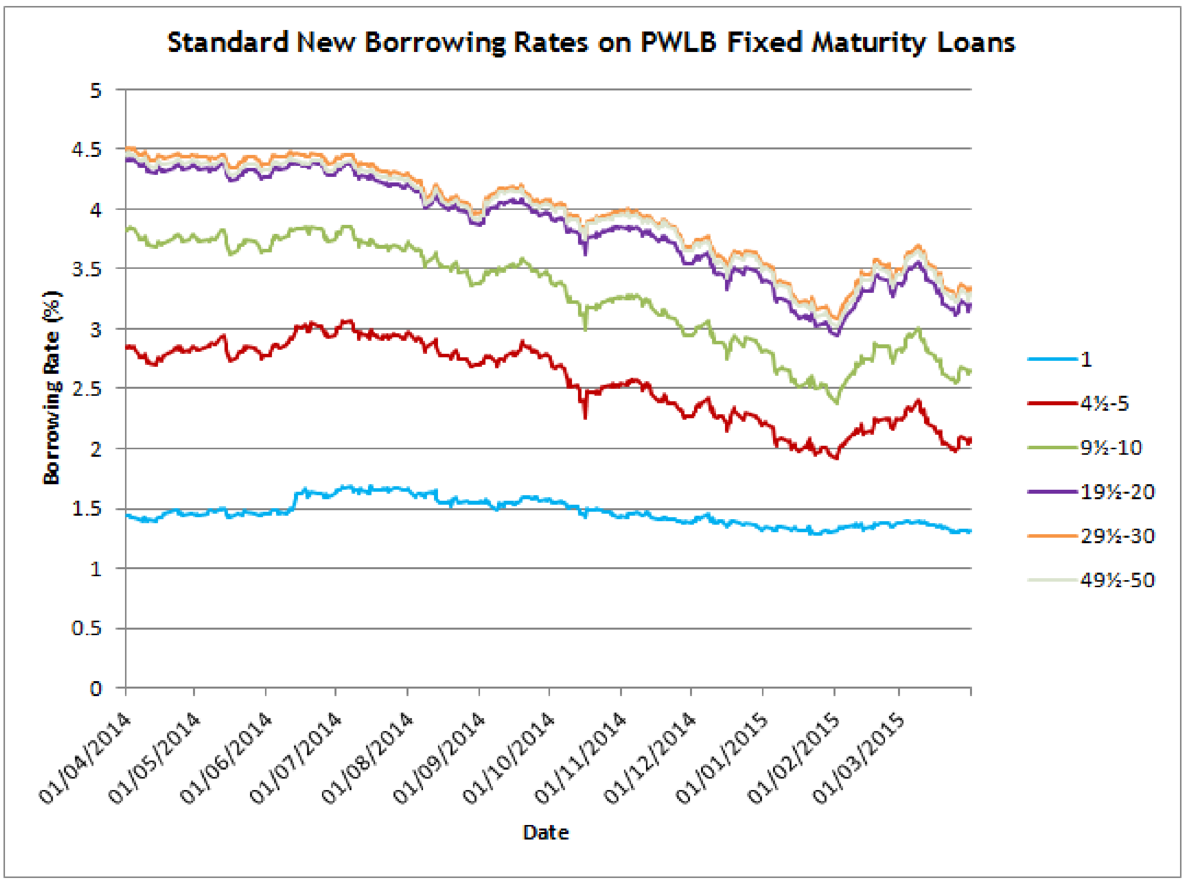


Table 3: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	Low	1.58	1.94	2.40	2.72	2.95	3.06
	Average	1.99	2.61	3.31	3.66	3.85	3.94
	High	2.39	3.13	3.89	4.26	4.43	4.50

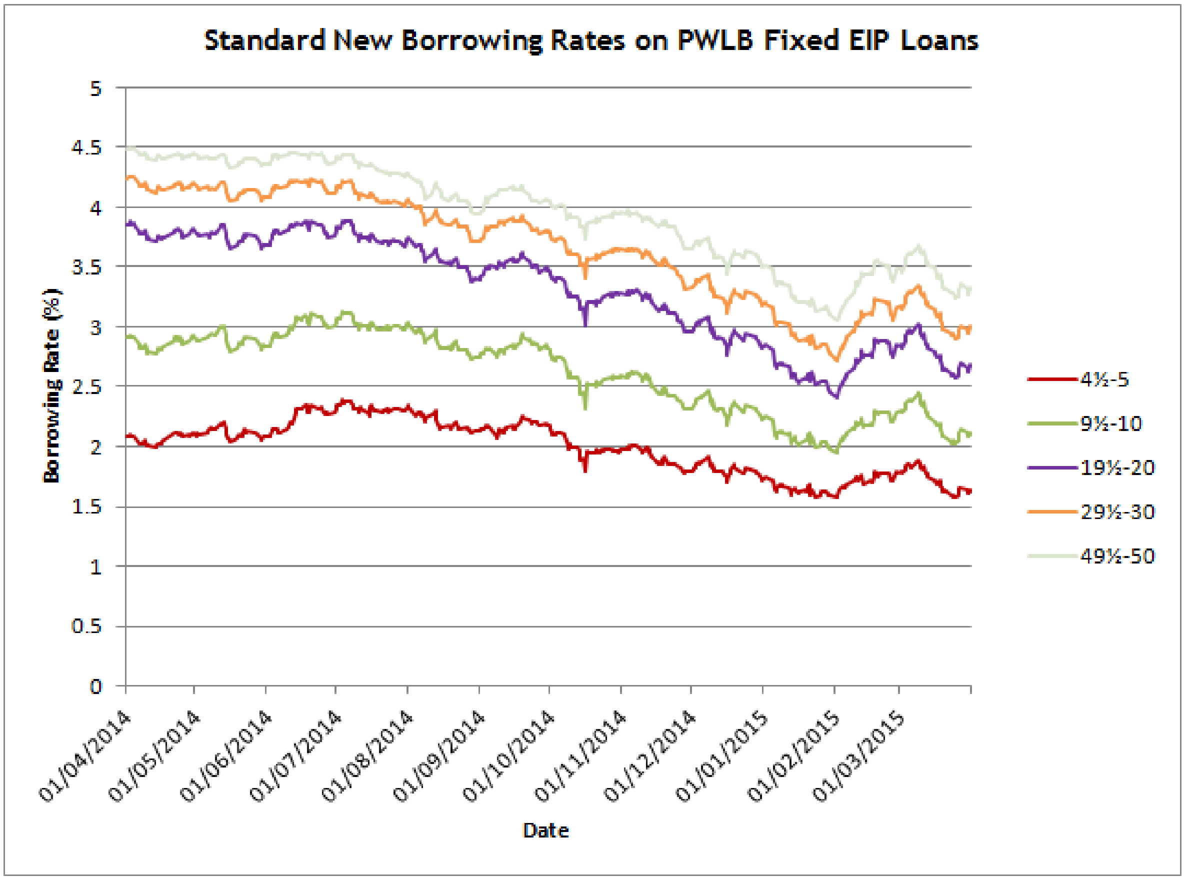


Table 4: PWLB Variable Rates

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56
Low	0.55	0.56	0.57	1.45	1.46	1.47
Average	0.59	0.61	0.66	1.49	1.51	1.56
High	0.64	0.68	0.76	1.54	1.58	1.66

Credit score analysis

<u>Scoring:</u>

Long-Term Credit Rating	**Score**
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value-weighted average reflects the credit quality of investments according to the size of the deposit. The time-weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the Authority's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

Credit Rating Equivalents and Definitions

	Fitch	Moody's	Standard & Poor's
Long Term Investment Grade	AAA	Aaa	AAA
	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-
	A+ A A-	A1 A2 A3	A+ A A-
	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
Sub Investment Grade	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
	B+ B B-	B1 B2 B3	B+ B B-
	CCC+ CCC CCC-	Caa1 Caa2 Caa3	CCC+ CCC CCC-
	CC+ CC CC-	Ca1 Ca2 Ca3	CC+ CC CC-
	C+ C C-	C1 C2 C3	C+ C C-
	D		D or SD

Fitch	Moody's	Standard & Poor's
AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	**Aaa** Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	**AAA** An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poors.
AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	**Aa** Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	**AA** An obligator rated 'AA' has very strong capacity to meets its financial commitments. It differs from the highest rated obligators only to a small degree.
A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for 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.	**A** Obligations rated A are considered upper-medium grade and are subject to low credit risk.	**A** An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.
BBB Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.	**Baa** Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	**BBB** An obligator rated 'BBB' has adequate capacity to meets its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligator to meet its financial commitments.

Background to externally managed funds

CCLA – The Local Authorities Property Fund

The fund's objective is to generate long-term growth in capital and a high and rising income over time.

The aim is to have high quality, well-diversified commercial and industrial property portfolio, in the UK, focussing on delivering attractive income and is actively managed to add value.

The fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

M&G Global Dividend Fund

The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. It aims to grow distributions over the long-term whilst maximising total return (a combination of income and growth of capital).

Exposure to global equities may be gained by using derivatives. The fund may invest across a wide range of geographies, sectors and market capitalisations. It may also invest in other assets including collective investment schemes, other transferrable securities, cash and near cash, deposits, warrants, money market instruments and derivatives.

The fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund seeks to invest in companies that understand capital discipline, have the potential to increase dividends over the long-term and are undervalued by the stock market. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a diversified portfolio with exposure to a broad range of countries and sectors designed to perform well in a variety of market conditions. It usually holds around 50 stocks with a long-term investment view and a typical holding period of 3-5 years.

Risk and reward profile

Low risk ⟷ High risk

Typically lower reward — Typically higher reward

1	2	3	4	5	6	7

The fund's risk factor based on historical data and may not be the same moving forward. It is rated a 5 because of the investments the fund makes:

- Value of investments, and income from them, will fluctuate and will cause the fund price to rise or fall
- Currency exchange rate fluctuations will impact the value of the investment
- There is a risk that a counterparty may default on its obligations or become insolvent, which may have a negative impact on the fund
- Investments in Emerging markets tend to have larger price fluctuations than more developed countries.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. There is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the fund.

SWIP Absolute Return Bond Fund

The objective of the fund is to achieve capital return, regardless of market conditions, over rolling 12-month periods.

The fund mainly invests in fixed-interest securities (including government and supranational bonds, corporate bonds, non-investment grade bonds and emerging markets debt), index-linked securities, money market transactions, cash, near-cash and deposits.

The fund may use derivatives (financial contracts whose value is linked to an underlying asset) to manage risks and costs.

The fund will be managed with the aim of delivering absolute (more than zero) return in any market conditions. An absolute return is not guaranteed and the fund may experience periods of negative returns.

At any one time a substantial amount of the fund may be held in cash.

Risk and reward profile

Low risk						High risk
Typically lower reward				Typically higher reward		
1	2	3	4	5	6	7

The risk profile represents where the fund ranks in terms of its potential risk and reward.

The fund is rated 4 because:

- The value in the underlying value of the investments are subject to price fluctuations
- Interest rate risk – fluctuations in interest rates are likely to affect the value of the bonds and other fixed-interest securities held by the fund. If long-term interest rates rise, the value of the investment is likely to fall.
- Credit risk – there is a risk that the issuers of bonds may not be able to repay the money they have borrowed nor make any interest payments. The risk is greater than average where the fund invests in a bond with a below investment grade rating.
- Currency risk – the fund may have holdings which are denominated in different currencies and may be affected by movements in exchange rates.
- Derivatives risk – Derivative transactions will or maybe used to a significant extent. At times, through the use of these instruments could lead to considerable short-term fluctuations in price. The impact to the fund is greater where derivatives are used in an extensive or complex way.
- Absolute return risk – due to its investment strategy, the fund may not move in line with market trends or fully benefit from a positive market environment.

Schroder Income Maximiser Fund

The funds objective is to provide income with potential capital growth primarily through investment in equity and equity related securities of UK companies. The fund will also use derivative instruments to generate income.

The manager may selectively sell short dated call options over securities or portfolios of securities held by the fund or indicies, in order to generate additional income by setting target ‘strike’ prices at which those securities may be sold in the future. The manger may also, for the purpose of efficient management, use derivative instruments which replicate the performance of a basket of short dated call options or a combination of equity securities and short dated call options. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, derivatives, cash, deposits, warrants and money market transactions.

The fund aims to deliver a target yield of 7% per year, although this is an estimate and is not guaranteed. There are four quarterly distributions in a year, each calculated by dividing the quarterly distribution amount by the unit price at the start of that quarter.

Glossary

Affordable Housing Grants – grants given to Registered Providers to facilitate the provision of affordable housing.

Arlingclose – the Council's treasury management advisors

Asset Quality Review (AQR) – a review conducted by the ECB and national competent authorities examine whether assets were properly valued on a banks' balance sheet at 31 December 2013. It made banks comparable across national borders, by applying common definitions for previously diverging concepts and a uniform methodology when assessing balance sheets. The review provides the ECB with substantial information on the banks that will fall under its direct supervision and will help its efforts in creating a level playing field for supervision in future.

Authorised Limit – the maximum amount of external debt at any one time in the financial year

Bail in risk – following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail-in" a bank before taxpayers are called upon.

A bail in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Balances and Reserves – accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure

Bank of England – the central bank for the UK. It has a wide range of responsibilities, including act as the Government's bank and the lender of last resort, it issues currency and, most importantly, oversees monetary policy.

Bank Rate – the Bank of England base rate

Bank Recovery and Resolution Directive (BRRD) – this directive ensures that EU member states have a harmonised toolkit to deal with the failure of banks and investment firms. It will make the EU financial system less vulnerable to shocks and contagion

Banks – Secured – covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the banks assets, which limits the potential losses in the unlikely event of insolvency and means they are exempt from bail in.

Banks – Unsecured – accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. Subject to the risk of credit loss via a bail in should the regular determine that the bank is failing or likely to fail.

Bonds – bonds are debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.

Capital expenditure – expenditure on the acquisition, creation or enhancement of capital assets

Capital Financing Requirement (CFR) – the Council's underlying need to borrow for a capital purpose, representing the cumulative capital expenditure of the Council that has not been financed

CCLA – the local authority property investment fund

Certainty rate – the government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.

Certificates of deposit – Certificates of deposit (CDs) are negotiable time deposits issued by banks and building societies and can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – department of Communities and Local Government

Consumer Price Index (CPI) – measures changes in the price level of a market basket of consumer goods and services purchased by households.

Corporates – loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Corporate bonds – corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.

Cost of Carry - costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.

Counterparty – the organisation the Council is investing with

Covered bonds – a bond backed by assets such as mortgage loans (covered mortgage bond). Covered bonds are backed by pools of mortgages that remain on the issuer's balance sheet, as opposed to mortgage-backed securities such as collateralised mortgage obligations (CMOs), where the assets are taken off the balance sheet.

Credit default swaps (CDS) – similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. The buyer effectively pays a premium against the risk of default.

Credit Rating – an assessment of the credit worthiness of an institution

Creditworthiness – a measure of the ability to meet debt obligations

Deposit Guarantee Scheme Directive (DGSD) – directive which requires EU member states to introduce at least one deposit guarantee scheme in their jurisdiction to provide protection for depositors and to reduce the risk of bank runs.

Derivative investments – derivatives are securities whose value is derived from the some other time-varying quantity. Usually that other quantity is the price of some other asset such as bonds, stocks, currencies, or commodities.

Diversification / diversified exposure – the spreading of investments among different types of assets or between markets in order to reduce risk.

Derivatives – financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.

DMADF – Debt Management Account Deposit Facility operated by the DMO where users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of the sovereign credit rating.

DMO – debt management office. An Executive Agency of Her Majesty's Treasury (HMT) with responsibilities including debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

EIP Loans – Equal Instalments of Principal. A repayment method whereby a fixed amount of principal is repaid with interest being calculated on the principal outstanding

European Central Bank (ECB) – the central bank responsible for the monetary system of the European Union (EU) and the euro currency. Their responsibilities include to formulate monetary policy, conduct foreign exchange, hold currency reserves and authorise the issuance of bank notes.

European Investment Bank (EIB) – the European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

Federal Reserve Bank (Fed) – the central bank of the US and the most powerful institution of the world.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Floating rate notes – floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

FTSE – a company that specialises in index calculation. Co-owners are the London Stock Exchange and the Financial Times. The FTSE 100 is an index of blue chip stocks on the London Stock Exchange.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

Government – loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail in, and there is an insignificant risk of insolvency.

Gross Domestic Product – the monetary value of all finished goods and services produced within a country's borders in a specific time period, although it is usually calculated on an annual basis.

Housing Grants – see Affordable Housing Grants

Illiquid – cannot be easily converted into cash

Interest rate risk – the risk that unexpected movements in interest rates have an adverse impact on revenue due to higher interest paid or lower interest received.

Liability benchmark – the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero)

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another

LIBOR - London Interbank Offer Rate – the interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.

Liquidity risk – the risk stemming from the inability to trade an investment (usually an asset) quickly enough to prevent or minimise a loss.

M&G – M&G Global Dividend fund. The fund invests mainly in global equities.

Market risk – the risk that the value of an investment will decrease due to movements in the market.

Mark to market accounting – values the asset at the price that could be obtained if the assets were sold (market price)

Maturity loans – a repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.

Minimum Revenue Provision (MRP) - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing

Moody's - a credit rating agency. They provide international financial research on bonds issued by commercial and government entities. They rank the creditworthiness of borrowers using a standardised ratings scale which measures expected investor loss in the event of default. They rate debt securities in several markets related to public and commercial securities in the bond market.

Money Market - the market in which institutions borrow and lend

Money market funds – an open-end mutual fund which invests only in money markets. These funds invest in short-term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rates does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- <u>Constant net asset value (CNAV)</u> refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at £1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share class), though some may choose to accumulate the income, or add it on to the NAV (accumulating share class). The NAV of accumulating CNAV funds will vary by the income received.
- <u>Variable net asset value (VNAV)</u> refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will

vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Money Market Rates – interest rates on money market investments

Monetary Policy Committee – the regulatory committee of the Central Bank that determine the size and rate of growth of the money supply, which in turn, affects interest rates.

Multilateral Investment banks – International financial institutions that provide financial and technical assistance for economic development

Municipal Bonds Agency – an independent body owned by the local government sector that seeks to raise money on the capital markets at regular interval to on-lend to participating local authorities.

Non Specified Investments - all types of investment not meeting the criteria for specified investments.

Operational Boundary – the most likely, prudent but not worst case scenario of external debt at any one time

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Project rate – the government has reduced by 40 basis points (0.40%) the interest rates on loans via the Public Works Loans Board (PWLB) for lending in respect of an infrastructure project nominated by a Local Enterprise Partnership (LEP).

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment

Prudential Regulation Authority (PRA) – is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers, and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

PWLB (Public Works Loans Board) - a central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.

Quantitative easing (QE) – a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. It is implemented by buying specified amounts of financial assets from commercial banks and other private institutions, raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

Registered Providers (RPs) – also referred to as Housing Associations.

Repo - a repo is an agreement to make an investment and purchase a security (usually bonds, gilts, treasuries or other government or tradeable securities) tied to an agreement to sell it back later at a pre-determined date and price. Repos are secured investments and sit outside the bail-in regime.

Reserve Schemes – category of schemes within the General Fund capital programme that are funded from earmarked reserves, for example the Car Parks Maintenance reserve or Spectrum reserves.

SME (Small and Midsize Enterprises) – a business that maintains revenue or a number of employees below a certain standard.

Sovereign – the countries the Council are able to invest in

Specified Investments - Specified investments are defined as:

a. denominated in pound sterling;
b. due to be repaid within 12 months of arrangement;
c. not defined as capital expenditure; and
d. invested with one of:
    i. the UK government;
    ii. a UK local authority, parish council or community council, or
    iii. a body or institution scheme of high credit quality

Stable Net Asset Value money market funds – the principle invested remains at its invested value and achieves a return on investment

Standard & Poors (S&P) – a credit rating agency who issues credit ratings for the debt of public and private companies, and other public borrowers. They issue both long and short term ratings.

Subsidy Capital Financing Requirement – the housing capital financing requirement set by the Government for Housing Subsidy purposes

SWAP Bid – a benchmark interest rate used by institutions

SWIP – SWIP Absolute Return Bond fund. They invest in fixed income securities, index linked securities, money market transactions, cash, near-cash and deposits.

Temporary borrowing – borrowing to cover peaks and troughs of cash flow, not to fund spending

Treasury Management – the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasurynet – the Council's cash management system

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out

Treasury Management Strategy Statement – also referred to as the TMSS.

Voluntary Revenue Provision – a voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.

Working capital – timing differences between income and expenditure (debtors and creditors)