WARWICK DISTRICT COUNCIL	**Executive – 12th March 2014**	**Agenda Item No. 4**

Title:	Treasury Management Strategy Plan for 2014/2015
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Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	N/A
Background Papers	Treasury Management in the Public Services – A Code of Practice and associated guidance notes– CIPFA The Prudential Code for Capital Finance in Local Authorities - CIPFA Treasury Management file L1/9 Treasury Management information via External Advisors, Brokers etc.

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes - 541
Equality & Sustainability Impact Assessment Undertaken	No – n/a

Officer/Councillor Approval

Officer Approval	**Date**	**Name**
Chief Executive	06/02/2014	Chris Elliott
Head of Service	13/02/2014	Mike Snow
CMT	18/02/2014	N/A
Section 151 Officer	13/02/2014	Mike Snow
Monitoring Officer	N/A	N/A
Finance	12/02/2014	Roger Wyton
Portfolio Holder(s)	18/02/2014	Cllr. Andrew Mobbs

Consultation & Community Engagement - None

Final Decision?	Yes

Suggested next steps (if not final decision please set out below)

1. SUMMARY

1.1 This report details the strategy for 2014/15 that the Council will follow in carrying out its Treasury Management activities including the Annual Investment Strategy and Minimum Revenue Provision (MRP)Policy Statement.

1.2 The report consists of a number of Appendices:-

Appendix A - Annual Treasury Management Strategy Plan 2014/15
Appendix B – 2014/15 Annual Investment Strategy Including Annex 1
Appendix C – Minimum Revenue Provision Policy Statement
Appendix D – An Explanation of Credit Rating Terms
Appendix E – Economic Background
Appendix F – Glossary of Terms

2. RECOMMENDATIONS

2.1 That the Executive notes:-

a) The changes to the various Treasury Management Practices as detailed in paragraph 3.2 below.

2.2 That the Executive recommends to Council:-

a) The Treasury Management Strategy for 2014/15 as outlined in paragraph 3.1 below and detailed in Appendix A,

b) The 2014/15 Annual Investment Strategy as outlined in paragraphs 3.4 and 3.5 below and detailed in Appendix B together with Annex 1 including the following changes:-

1. As per paragraph 2.4 of Appendix B, that Variable Net Asset Value Money Market Funds, Corporate Bonds and Floating Rate Notes are added to the list of Specified Investments that the Council can use.

2. That the individual and overall counterparty limit for Variable Net Asset Value Money Market Funds for 2014/15 be £6 million.

3. That the individual counterparty limit for Corporate Bonds issued by Corporates for 2014/15 be £3 million.

4. That the individual counterparty limit for Floating Rate Notes issued by Corporates for 2014/15 be £3 million.

5. As per paragraph 2.7 of Appendix B, that Corporate Bonds with maturities in excess of 364 days, Corporate Bond Funds and Regulated and Unregulated Property Funds (CCLA Local Authority Property Fund only) are added to the list of Non-Specified investments that the Council can use.

6. That as per paragraph 2.6 of Appendix B, the current 40% portfolio limit and £9 million monetary limit on investments over 364 days be replaced by 60% and £15 million respectively.

7. That as per paragraph 2.6 of Appendix B, Corporate Bond and Property Funds are limited to a maximum of £5 million per fund within an overall sector limit of £10 million and subject to the over 364 day overall investment limit of £15 million

8. That as per paragraph 2.6 of Appendix B, in respect of Local Authorities the current maximum duration limit of 2 years be increased to 5 years.

9. That as per paragraph 2.6 of Appendix B, in respect of Corporate Bond and Property Funds, the current maximum duration limit of 2 years be increased to 10 years.

c) The Minimum Revenue Provision Policy Statement as outlined in paragraph 3.6 below and contained in paragraphs 4.1 to 4.4 of Appendix C.

d) The Prudential Indicators as outlined paragraph 3.7 below and contained in paragraphs 5.4 & 5.5 of Appendix A.

3. REASONS FOR RECOMMENDATIONS

3.1 The Council is required to have an approved Treasury Management Strategy, including an Annual Investment Strategy and Minimum Revenue Provision Policy within which its Treasury Management operations can be carried out. The Council will be investing approximately £13.605 million in new capital in 2014/2015 and will have average investments of £48 million (2012/13 actual £47m). This level of investments arises from our reserves and provisions, the General Fund and Housing Revenue Account balances, and accumulated capital receipts as well as cashflow.

3.2 The Council's treasury management operations are also governed by various Treasury Management Practices (TMP's), the production of which is a requirement of the CIPFA code and which must be explicitly followed by officers engaged in treasury management. These have previously been reported to the Executive and approved. There have been the following changes to various Treasury Management Practices (TMP's) and these changes are outlined below
TMP 1 Risk Management.

Paragraph 2.1(l) – inclusion of Triple A Variable Net Asset Value Money Market Funds with minimum credit ratings of AAAf S1 (Standard & Poors), Aaa-bf (Moody's) or AAA/V1 (Fitch).

Paragraph 2.1(n) – inclusion of Corporate Bonds issued by Financial Institutions with a minimum Fitch credit rating of A+ or A in the case of UK banks wholly or part owned by the UK Government.

Paragraph 2.1(o) – inclusion of Floating Rate Notes issued by Financial Institutions with a minimum Fitch credit rating of A+ or A in the case of UK banks wholly or part owned by the UK Government.

Paragraph 2.1(p) – inclusion of Investment Grade Corporate Bond Funds

Paragraph 2.1(q) – inclusion of Regulated Property Funds

Paragraph 2.1(r) – inclusion of Unregulated Property Funds currently limited to CCLA Local Authority Property Fund.

Paragraph 2.3 – setting of counterparty limits for new investment vehicles:-
i) Variable Net Asset Value MMF's £6 million
ii) Financial Institution Corporate Bonds £5 million or £9 million if wholly or part owned by UK Government
iii)Corporate Bonds issued by Corporates £3 million
iv)Financial Institution Floating Rate Notes £5 million or £9 million if wholly or part owned by UK Government
v)Floating Rate Notes issued by Corporates £3 million
vi)Investment Grade Corporate Bond Funds £5 million
vii)Regulated Property Funds £5 million
viii)CCLA Local Authority Property Fund £5 million

Paragraph 2.4 – Increase in %, value and duration of core investment portfolio that can be invested for more than 364 days in order to accommodate new Corporate Bond and Property Fund vehicles, the new limits to be 60%, £15 million.and for Corporate Bond and Property Funds a duration limit of 10 years. The maximum duration of investments with other Local Authorities has been increased from 2 to 5 years, the maximum duration for all other vehicles remaining at 2 years. Also change in definition of over 364 day investments. Investments that were originally for more than 364 days but at 1st April each year have 364 days or less to maturity will be classed as of that date as short term investments and will not count against the 60% or £15 million limits.

Paragraph 2.5 – change in order to allow a bank which does not satisfy our minimum credit rating criteria to be the Council's bankers. The Council will be retendering its banking contract during 2014/15 and currently our TMP's do not allow a bank that is below our minimum credit rating criteria to be appointed as our bankers. Should such a bank be appointed then deposits will be restricted to day to day balances.

<u>TMP4 Approved Instruments, Methods and Techniques.</u>

Paragraph 2.1 (j) - Amended to include Variable Net Asset Value Money Market Funds.

Paragraph 2.1 (m) – introduction of Corporate Bonds up to a maximum of 2 years issued by Financial Institutions or Corporates with a minimum Fitch rating of A+ or A in the case fo Financial Institutions wholly or part owned by the UK Government.

Paragraph 2.1 (n) – introduction of Floating Rate Notes up to a maximum of 2 years issued by Financial Institutions or Corporates with a minimum Fitch rating of A+ or A in the case of Financial Institutions wholly or part owned by the UK Government.

Paragraph 2.1 (o) - introduction of Investment Grade Corporate Bond Funds with a maximum duration of 10 years.

Paragraph 2.1 (p) - introduction of Regulated Property Funds including Real Estate Investment Trusts up to a maximum duration of 10 years

Paragraph 2.1 (q) - introduction of Unregulated Property Funds including Real Estate Investment Trusts up to a maximum duration of 10 years – currently CCLA Local Authority Property Fund only.

Delete previous Paragraph 2.1 (m) as Real Estate Investment Trusts are a form of Property Fund and are therefore now included under that category..

TMP5 Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements.

Paragraph 1.3 – Threshold amount relating to the need to consult the Head of Finance before making an investment increased from £2.5 million to £3 million reflecting general increase in investment balances and individual counterparty limits since original threshold set.

Paragraph 5.1 – Authorisation procedure for new Svenska Handelsbanken deposit account added. Faxed instructions for deposits in and withdrawals from this new account require the signatures of two authorised signatories

TMP 9 Money Laundering.

Paragraph 9.1.2.(a) – amended to reflect the fact that the Financial Conduct Authority has replaced the Financial Services Authority.

TMP 11 Use of External Service Providers

Paragraph 1.4 (h)- addition of triple A rated Variable Net Asset Value Money Market Funds to the vehicles that an external fund manager is permitted to use.

Paragraph 1.4 (j) – addition of Base Rate tracking Bank and Building Society account to the vehicles that an external fund manager is permitted to use.

Paragraph 1.4 (k) – addition of Corporate Bonds up to a maximum of 364 days issued by Financial Institutions or Corporates with a minimum Fitch rating of A+ or A in the case of a Financial Institution on wholly or part owned by the UK Government to the vehicles that an external fund manager is permitted to use.

Paragraph 1.4 (l) - addition of Floating Rate Notes up to a maximum of 364 days issued by Financial Institutions or Corporates with a minimum Fitch rating of A+ or A in the case of a Financial Institution wholly or part owned by the UK Government to the vehicles that an external fund manager is permitted to use.

Paragraph 2.1 – Updated to reflect the fact that Sector Treasury Services has been re-named Capita Asset Services – Treasury Solutions Ltd.

3.3 This Council has regard to the Governments Guidance on Local Government Investments and CIPFA's updated Treasury Management in Public Services Code of Practice. The guidance states that an Annual Investment Strategy must be produced in advance of the year to which it relates and must be approved by the full Council. The Strategy can be amended at any time and it must be made available to the public. The Annual Investment Strategy for 2014/15 is contained within Appendix B and its Annex.

3.4 The current low interest rate environment is expected to continue for the foreseeable future as whilst interest rates are expected to start rising from the December quarter of 2015 it will be from a very low base and consequently investment returns will continue to be depressed for some time to come. Counterparty credit rating constraints and continuing high investment balances mean that it has become necessary to look at alternative investment vehicles in order to ensure that the Council can continue to invest its funds with the highest possible security whilst obtaining a reasonable rate of return. The changes being recommended are described in more detail in Appendix B but essentially involve the addition of Variable Net Asset Value Money Market Funds, Corporate Bonds, Floating Rate Notes, Corporate Bond Funds and Property Funds to the Council's investment armoury, the latter two being for long term use only. These offer an enhanced rate of return over our traditional investments whilst still having high security

3.5 The Council has to make provision for the repayment of its outstanding long term debt and other forms of long term borrowing such as Finance Leases. Statutory guidance from the DCLG requires that a statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which it relates and this is contained in Appendix C.

3.6 The Prudential Code for Capital Finance in local authorities which was revised in 2009 introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy. The Prudential Code requires the Council to set a number of Prudential Indicators and this report does therefore incorporate within section 5 of Appendix A the indicators to which regard should be given when determining the Council's treasury management strategy for the next 3 financial years.

4. POLICY FRAMEWORK

4.1 This report is in accordance with the Council's established Treasury Management Policies and provides a framework within which it will conduct its Treasury Management Operations in 2014/15.

5. BUDGETARY FRAMEWORK

5.1 The Treasury Management Strategy has a potentially significant impact on the Council's budget through its ability to maximise its investment interest income whilst minimising the risk of the loss of the Council's funds and minimise its borrowing interest payable which is of particular importance to the HRA under the Self Financing regime. This also helps to underpin the Council's Corporate Objectives and delivery of its Fit For the Future projects. The performance of the Treasury Management function is reported half-yearly to the Finance & Audit Scrutiny Committee which is the body charged by the Council with overseeing the treasury management activities of the council. Also an annual report for the Finance & Audit Scrutiny Committee is prepared at the end of the financial year on Treasury Management and compliance with the strategy and the Treasury Management Practices are reviewed as part of the annual Treasury Management audit.

5.2 Treasury Management is an evolving process and whilst it is not possible to compare investment returns from year to year due to differing economic climates, the previous year's performance together with feedback on our current performance from the Council's involvement in Capita Asset Services' Treasury Management Benchmarking Club is reviewed to see what lessons can be learnt that would help improve the current and future years investment returns and/or the security of the investments. For instance, this may take the form of new investment vehicles as is being recommended in this report.

6. RISKS

6.1 The introduction of Variable Net Asset Money Market Funds into the portfolio potentially increases capital risk. This is through potential capital loss due to market price fluctuations, for instance if investments have to be withdrawn early. This is mitigated by good cash flow management ensuring that investments are available for the necessary length of time to ensure that there is no negative impact on the capital value of the fund. In addition, mitigation is achieved by having a lower investment limit than for Constant Net Asset Value Money Market Funds in which there is no risk of capital loss.

6.2 Corporate Bonds and Floating Rate Notes (FRN's) introduce Counterparty credit risk into the portfolio by virtue of the fact that it is possible that the institution invested in could become bankrupt leading to the loss of all or part of the Council's investment. This is mitigated by only investing in Corporate Bonds or FRN's with a strong Fitch credit rating, in this case A+ and issued as Senior Unsecured debt which ranks above all other debt in the case of a bankruptcy.

6.3 The risks involved in not adopting the recommendations are outlined in paragraphs 7.2 and 7.3 below.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 The approval of an annual Treasury Management Strategy is a requirement of the CIPFA Treasury Management in the Public Services Code of Practice, the latest version of which was adopted by the Council in 2011/12.

7.2 An alternative to the strategy being proposed for 2014/15 would be to vary the counterparty limits and investment periods from those currently in force in order to increase investment returns but this would expose the Council to increased credit risk and is not recommended.

7.3 The Council could also choose not to introduce the new investment vehicles and reduce the minimum credit rating criteria instead. However, whilst this would achieve the stated aim of enhancing investment returns it would significantly increase credit risk within the investment portfolio leading to potential loss of capital.

APPENDIX A ANNUAL TREASURY MANAGEMENT STRATEGY PLAN 2014/15

1. **GENERAL**

1.1 This part of the report outlines the strategy that the Council will follow during 2014/15. Its production and submission to the Executive is a requirement of the CIPFA Code of Practice on Treasury Management in the Public Services.

1.2 The suggested strategy for 2014/15 in respect of the treasury management function is based upon the officer's view on interest rates supplemented with forecasts provided by Capita Asset Services – Treasury Solutions (formerly known as Sector Treasury Services) who are the Council's treasury advisers.

1.3 It is also a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from a) increases in interest charges caused by increased borrowing to finance additional capital expenditure b) any increases in running costs from new capital projects and c) the loss of interest on balances or reserves arising from their use in financing the capital expenditure are limited to a level which is affordable within the projected income of the council for the foreseeable future. This is covered by the Prudential Indicator calculating the Incremental Impact on the Council Tax or Housing Rent in paragraph 5.3 below.

1.4 A Glossary of Terms is included as Appendix F in order to aid Member's understanding of technical terms used in the field of Treasury Management.

2 **INTEREST RATE FORECASTS FOR 2014/15**

2.1 The ability to forecast the movement of interest rates is fundamental to successful investment and borrowing strategies. The Council employs Capita Asset Services – Treasury Solutions to provide interest rate forecasts and their latest view on both short and long term rates is shown in 2.2 overleaf. Their view on Bank Rate has been used to formulate the investment interest estimates for 2014/15 and future years and the PWLB rates are of particular interest in respect of the £136.157m PWLB debt taken out in late 2011/12 to finance the HRA Self Financing debt settlement as they will form the basis for any debt restructuring decisions that may be taken during 2014/15 although none are currently planned. The PWLB rates are also germane to any take up of the £13.843m borrowing headroom that the HRA has under the Self Financing regime.

2.2 The PWLB forecasts below are based on the PWLB Certainty Rate.

Quarter	Bank Rate	5 yr PWLB Rate	10 yr PWLB Rate	25 yr PWLB Rate	50 yr PWLB Rate
Dec 2013	0.50%	2.50%	3.60%	4.40%	4.40%
Mar	0.50%	2.50%	3.60%	4.40%	4.40%

2014					
Jun 2014	0.50%	2.60%	3.70%	4.50%	4.50%
Sep 2014	0.50%	2.70%	3.80%	4.50%	4.50%
Dec 2014	0.50%	2.70%	3.80%	4.60%	4.60%
Mar 2015	0.50%	2.80%	3.90%	4.60%	4.70%
Jun 2015	0.50%	2.80%	3.90%	4.70%	4.80%
Sep 2015	0.50%	2.90%	4.00%	4.80%	4.90%
Dec 2015	0.75%	3.00%	4.10%	4.90%	5.00%
Mar 2016	0.75%	3.10%	4.20%	5.00%	5.10%
Jun 2016	1.00%	3.20%	4.30%	5.10%	5.20%
Sep 2016	1.25%	3.30%	4.30%	5.10%	5.20%
Dec 2016	1.50%	3.40%	4.40%	5.10%	5.20%
Mar 2017	1.75%	3.40%	4.50%	5.10%	5.20%

2.3 The Monetary Policy Committee (MPC) utilises Bank Rate as one of its tools to control inflation in the economy and meet its target rate of 2% Consumer Prices Inflation (CPI) .

2.4 Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established.One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

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

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/15 and beyond;
- Borrowing interest rates have risen significantly during 2013 and are on a rising trend.
- There will remain a cost of carry to any borrowing undertaken in advance of need that results in a temporary increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

2.6 Both UBS and Capital Economics (a leading Economics House) take a view that Bank Rate will remain at 0.50% until at least December 2015 thus lending support to Capita Asset Services – Treasury Solutions' view.

2.7 With regard to Long Term borrowing rates, Capital Economics is forecasting PWLB rates to be generally lower than Capita Asset Services – Treasury Solutions' view whilst UBS is forecasting rates to be higher.

2.8 A more detailed economic analysis by Capita Asset Services – Treasury Solutions is included at Appendix E.

3 CAPITAL BORROWING AND CAPITAL PROGRAMME FINANCING STRATEGY

3.1 The Council is able to finance its capital programmes in the following ways:-

a) By the use of Prudential Borrowing. Currently It is anticipated that there will be no need to borrow in order to finance the Council's 2014/15 capital programmes. However, should there be a need to borrow during the year it is likely, given that investment interest rates are forecast to be below long term borrowing rates for the year, that any borrowing will be of an internal nature i.e. from the Council's cash balances.

b) From Usable capital receipts. With regard to the General Fund capital programme it is anticipated that it will be part funded by the balance of unused capital receipts carried forward to 2014/15 primarily arising from the sale of Wilton House in 2011/12 and the sale of the Old Art Gallery in 2012/13. These will be supplemented by receipts arising from the sale of .21 Church Street, Warwick (£440,000) including the sale of 2 car parking spaces and a right of way across New Street car park and the expected sale of 10-14 Chapel Street, Warwick (£400,000) in 2013/14. The Housing Investment Programme anticipates 22 council house sales during 2014/15 resulting in £721,691 being available to part finance current and future expenditure alongside receipts in hand from previous years. However, £209,500 of this figure must be spent on housing new build only.

c) From revenue or reserves.

d) From external contributions and grants . With regard to the General Fund capital programme, it is anticipated that external contributions will be used to part finance the 2014/15 expenditure on Green Farm Play

Equipment, Jubilee House and the Cubbington Flood Alleviation Scheme . With regard to the Housing Investment Programme it is expected that grants and contributions amounting to £415,400 will be utilised to finance General Fund Housing RSL projects and Improvement Grants.

e) From Leasing or other similar means of capital finance.

3.2 With the exception of dedicated external grants and contributions, before deciding which of the above means of capital financing will be utilised to finance capital expenditure, the Council will conduct an options appraisal exercise where appropriate.

3.3 The financing of the Council's proposed 2014/15 capital programmes (at January 2014) is shown in the table below:-

Financing Method	**General Fund £**	**Housing Investment Programme £**
Prudential Borrowing	0	0
Leasing	0	0
Capital Receipts	282,100	1,838,200
External Contributions	375,900	1,077,600
Revenue Contributions	0	109,600
Reserve Contributions	1,944,200	7,977,300
TOTAL	**2,602,200**	**11,002,700**

4. LONG TERM AND TEMPORARY BORROWING

4.1 The Council's current long term borrowing portfolio consists of £136.157m PWLB debt. These loans were taken out to finance the HRA Self Financing settlement and the interest paid on this debt is entirely borne by the Housing Revenue Account and is provided for as part of the HRA Business Plan.
The first of these loans is scheduled to be repaid on 28th March 2053 with the final loan being repaid on 28th March 2062.

4.2 As part of their ongoing services, Capita Asset Services will monitor the debt portfolio during 2014/15 identifying, where appropriate, any opportunities for debt restructuring although these are expected to be minimal, if at all.

4.3 Should the Council engage in any long term borrowing during 2014/15, if deemed to be advantageous due to the expected path of interest rates, the Council may borrow in advance of need subject to prior appraisal of the risk and the borrowing must not take place in excess of 18 months before the anticipated need.

4.4 The Council will continue to engage in short term borrowing (up to 364 days) when necessary in order to finance temporary cash deficits, however by managing our cash flow effectively these will be kept to a minimum. In each case, wherever possible, the loan will be taken out for periods of less than 7 days in order to minimise the interest payable. To date in 2013/14 the Council has not incurred any short term borrowing and is not expected to do so in 2014/15 either.

5. TREASURY LIMITS AND PRUDENTIAL INDICATORS FOR 2014/15 TO 2016/17

5.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Authorised Limit". The Council must have regard to the Prudential Code when setting its Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax / rent levels is acceptable. Whilst termed an Authorised Limit, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements e.g. finance leases. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. The limits shown in the table in paragraph 5.2 include the impact of the HRA Self Financing debt settlement which took place on the 28th March 2012. It also includes the HRA "Headroom" which is the amount that the HRA can borrow between the debt settlement and the Debt Cap set under the Self Financing regime.

5.2 The Authorised Limits to be recommended to Council by the Executive were included in the Budget report presented to the Executive on 12th February and were ratified by the Council at its meeting on 26th February. They are also displayed in the table overleaf:-

Authorised Limit	2013/14 (For Comparison) £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Debt	12.10	15.05	15.05	15.05
Add HRA Settlement	136.16	136.16	136.16	136.16
HRA Head Room	13.84	13.84	13.84	13.84
Other Long Term Liabilities	1.092	1.080	1.032	1.001
Total	163.192	166.130	166.082	166.051

5.3 The Prudential Indicators required by the code are explained in more detail in the report on the budget and those relevant to an integrated treasury management strategy are reproduced below:-

That the Council has adopted the revised CIPFA Treasury Management Code of Practice which it did in February 2011.

Capital Financing Requirement

Year	General Fund (inc. GF HIP element)	HRA	Overall
2013/14 (for comparison)	-£1,326,896	£135,786,796	£134,459,900
2014/15	-£1,326,896	£135,786,796	£134,459,900
2015/16	-£1,326,896	£135,786,796	£134,459,900

2016/17	-£1,326,896	£135,786,796	£134,459,900

The Capital Financing Requirement (CFR) as shown in the table above is a measure of the Council's underlying need to borrow in order to meet past capital expenditure. Currently, as the capital programmes are expected to be fully funded from sources other than borrowing (including leases) no increase is forecast to the CFR's. The CFR would normally be reduced by any provision for the repayment of debt each year. As the GF CFR is negative this is not required and in the case of the HRA debt redemption is not scheduled to start until year 41 (2052/53) of the current Business Plan.

Incremental Impact on Council Tax / Housing Rents

Year	Council Tax	Housing Rent
2013/14 (for comparison)	£1.38	£0.00
2014/15	£3.83	£0.00
2015/16	£1.65	£0.00
2016/17	£2.00	£0.00

Operational Boundary for External Debt

Operational Boundary	2013/14 (For Comparison) £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Debt	1.10	1.05	1.05	1.05
Add HRA Settlement	136.16	136.16	136.16	136.16
HRA Head Room	13.84	13.84	13.84	13.84
Other Long Term Liabilities	0.09	0.08	0.03	0.00
Total	151.19	151.13	151.08	151.05

As a result of HRA Self Financing, the Council is also limited to a maximum HRA CFR. This limit is currently:-

HRA Debt Limit	2013/14 (for comparison)	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Total	150.00	150.00	150.00	150.00

5.4 In addition certain indicators that used to be part of the Prudential Code are now part of the Treasury Management Code of Practice and are shown below :-

Upper limits to fixed interest rate and variable interest rate exposures on borrowing

Year	Upper Limit - Fixed Rate	Upper Limit - Variable Rate
2014/15	100%	30%
2015/16	100%	30%

2016/17	100%	30%

Upper and Lower Limits respectively for the Maturity Structure of Fixed Interest Rate Borrowing

Period	Upper	Lower
Under 12 months	6%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	20%	0%
10 years and above	94%	0%

Upper and Lower Limits respectively for the Maturity Structure of Variable Interest Rate Borrowing

Period	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

5.5 **Principal sums invested for periods longer than 364 days**

The total maximum sum that can be invested for more than 364 days is 60% of the core investment portfolio subject to a maximum of £15 million at any one time. However, where investments which originally were for periods of more than 364 days have 364 days or less to maturity at the 1st April each year they shall be classed from that date as short term i.e. less than 364 day investments and will not count against the 60% or £15 million limit.

6. BEST VALUE

6.1 The Council participates in Capita Asset Services' investment risk management benchmarking service in order to provide benchmarks against which the in house function could monitor its performance. The Council is part of a local group comprising both District and County Councils and our investment rate of return is benchmarked on a weighted average basis against the Capita Asset Services Model Portfolio and the returns experienced by the other club members. In 2014/15, the Council will seek to achieve a weighted average rate of return in line with the Capita Asset Services Model Portfolio which is based upon the best possible return whilst providing the maximum security for the capital invested.

6.2 The internal treasury function will also seek to achieve an average rate of return on its Money Market investments of 0.0625% over the LIBID (London Inter Bank Bid Rate) average for comparable investment periods (e.g. up to 7 day, 1 to 3 months, 3 to 6 months and over 6 months).

6.3 Should the Council employ external investment agents during 2014/15 suitable performance indicators will be agreed with the agents similar to that which operated under the previous Invesco agreement e.g. the fund will be required to outperform the Financial Times 7 day LIBID rate compounded weekly with a target return of 110% of the benchmark over a 3 year rolling period.

6.4 The Council's performance is reported half-yearly to the Finance and Audit Scrutiny Committee.

7. EXTERNAL TREASURY MANAGEMENT ADVISERS

7.1 The Council employs Capita Asset Services – Treasury Solutions as its Treasury Management advisers. Their current contract expires on 5th January 2015 and it will be necessary to re-tender this service during the currency of this Treasury Strategy. Preliminary work has already commenced but in all likelihood the re-tendering process will be straightforward as there are now only two "players" in this market, Capita Asset Services and Arlingclose.

8. BANKING SERVICES

8.1 The Council currently employs HSBC Bank to provide its banking services and. the current contract expires on 1st March 2015 so again it will be necessary to re-tender for this service during the currency of this Treasury Strategy. Preliminary discussions have been held with Procurement to establish the likely timescale and processes required. In order to met the predicted timescale of 1 year, detailed work on this project is likely to commence in early Spring 2014.

8.2 Should the successful bank have a Fitch credit rating less than the minimum required for inclusion in the Council's investment counterparty list then monies held with the bank will be restricted to day to day working balances.

9. OTHER ISSUES

9.1 The Council has entered into a joint venture with Waterloo Housing Association in which Council land will be sold on a deferred basis to the Housing Association in order to provide resources for additional social housing. During 2012/13, Kingsway Community Centre was sold to Waterloo on this basis and Executive approval has recently been given to dispose of West Rock car park in a similar manner. Local Authority accounting requires that a certain portion of the deferred capital receipt has to be treated as investment income and the Treasury Management function will be advising on the accounting transactions involved.

9.2 The Council's treasury consultants, in conjunction with a number of other authorities , have devised a scheme whereby a Local Authority will guarantee to the lending bank a proportion of a borrowers mortgage against default and is aimed at enabling people who are capable of affording the monthly repayments on a mortgage but who are unable to provide the increased deposits that mortgage lenders are currently demanding following the "credit crunch" to enter the housing market and thus free up properties for social housing purposes. The Council joined the pilot scheme and further developments of this scheme will be the subject of a future report to the Executive. Should we participate in the scheme, currently this would involve the making of an advance to the bank equal to the guarantee in total which for our purposes will be treated as capital expenditure and will be accounted for as a Long Term Debtor in much the same way as the few remaining Sale of Council House mortgages are. The bank giving the mortgage will pay interest on this advance at an attractive interest rate. The advance will be the security against which any defaults will be charged and the Treasury Management function will be advising on the treasury management implications of the scheme.

APPENDIX B 2014/15 ANNUAL INVESTMENT STRATEGY

1. BACKGROUND

1.1 This Council has regard to the Governments Guidance on Local Government Investments and CIPFA's updated Treasury Management in Public Services Code of Practice. Section 15(1) of the 2003 Local Government Act requires councils to have regard to such guidance as the Secretary of State may issue. Guidance was issued in 2004 and has subsequently been updated with the last major change being that Local Authorities who invest in Corporate Bonds no longer need to account for these as capital transactions i.e. capital expenditure. The general policy objective is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity. The guidance states that an Annual Investment Strategy must be produced in advance of the year to which it relates and must be approved by the full Council. The Strategy can be amended at any time and it must be made available to the public.

2. INVESTMENT VEHICLES AND CREDITWORTHINESS POLICY

2.1 In line with the guidance, this Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of Specified and Non Specified Investments. These are listed in paragraph 2.5 and detailed in Annex 1.

2.2 Specified investments are defined as those with a high credit rating, as outlined in the table below for each type of investment institution or vehicle . For deposits with Banks this is a Fitch sovereign rating at least equal to that of the United Kingdom at the point at which the investment was taken out, at least F1 short term, A+ long term (except in the case of a part or fully nationalised UK bank where the debts are guaranteed by the UK Government in which case the minimum long term rating will be A) , An explanation of credit rating terms appears in Appendix D.

2.3 In addition to the Fitch ratings, the Council will also have regard to the ratings published by the other 2 main agencies, Moody's and Standard & Poors together with any ratings watch notices issued by the 3 agencies as well as articles in the Financial press and market data. In addition to credit ratings the Council will also use Credit Default Swap data as supplied by Capita Asset Services – Treasury Solutions to determine the suitability of investing with counterparties. Credit Default Swaps (CDS) are a form of "insurance premium" against defaulting taken out by investors when making investments and if the Market perceives problems with the counterparty then the margin on the CDS will widen (i.e. the insurance premium will increase) thus providing warnings for future investors with that counterparty that it might have problems repaying their investment. The Council will monitor the CDS's on the counterparties within its lending list and if there are significant movements on a counterparty such as it moves out of a pre-determined range which will be determined with the aid of the Councils Treasury Consultants then that counterparty will be removed from the list until such time as it moves back within range.

2.4 For 2014/15, it is proposed to add 3 new investment vehicles to the list of Specified Investments, Variable Net Asset Value Money Market Funds, Corporate Bonds and Floating Rate Notes and these are discussed below:

A) Variable Net Asset Value Money Market Funds

Currently the Council's investments in Money Market Funds are restricted to what are termed Constant Net Asset Value funds (CNAV's) i.e. the capital value of the fund is constant so if you put a pound in you get a pound out. It is proposed to add Variable Net Asset Value Money Market Funds or VNAV's (typically described as "Cash Plus Funds") to our list of Specified Investments. These funds are designed to produce an enhanced return but as the name implies the capital invested in the fund is liable to variation in terms of value as typically the fund manager is required to take more risk (whether credit, interest rate or liquidity) than traditional CNAV's. This does not mean that there is necessarily a reduction in credit quality but the funds can produce more volatile daily returns and therefore should be viewed as a medium term (at least 3 to 6 months but preferably longer) investment vehicle. As mentioned above VNAV's are subject to more risk and this is best illustrated by a comparison between the risk parameters applied to our current Federated Prime Rate CNAV MMF and their VNAV MMF equivalent:-

	CNAV MMF	**Cash Plus Fund**
Maximum maturity of credit exposure	Maximum of 6 months for each issuer within the fund	Maximum of 2 years for each issuer within the fund
Maximum maturity of Floating Rate Note exposure	Maximum of 6 months for each issuer within the fund	Maximum of 2 years for each issuer within the fund
Maximum credit exposure over 7 days	Maximum of 5% exposure for each issuer	Maximum of 5% exposure for each issuer
Maximum % illiquid assets	0%	0%
Maximum % asset backed securities	0%	0%
Minimum % cash	25% overnight, 30% within a week	10% overnight, 15% within a week
Maximum weighted average maturity	48 days	6 months
Maximum weighted average life	60 days	365 days
Investment Universe (permitted counterparties)	N/A	Same but with longer permitted maturities

It can be seen that there is more risk in the Cash Plus Fund as investments within the fund are for longer periods i.e. the weighted average maturity and life are longer but not hugely so and significant amounts of cash are still retained in order to meet any demands for liquidity within the fund i.e. withdrawals by depositors.

Typically a VNAV MMF would invest in such assets as call and fixed bank deposits, Certificates of Deposits, Treasury bills, Commercial Paper, Corporate Bonds, Floating Rate Notes and Asset Backed Securities (effectively securities backed by residential mortgages, car loans, credit card debt etc) and the proportion of the portfolio that can be held in each individual asset class will be strictly controlled. As the assets within the fund are marked to market on a daily basis, the value of the capital invested in the fund can vary from day to day hence the need to consider a VNAV MMF as a medium term investment vehicle in order to "iron out" any temporary reductions in capital value. Over the medium term it is expected that the amount invested in the fund will rise as interest earned on investments outweighs any temporary negative valuation impact on the underlying value of the capital invested. In the case of the Federated Prime Rate Cash Plus fund the capital variance, assuming an investment of £100, has varied between £99.93 and £100.05 so it can be seen that risk to the Council's capital if investing in VNAV MMF's would be slight and more than offset by the additional interest earnt.

In terms of yield, these vary from fund to fund depending on the risk appetite of the fund manager and the types of investments held in the fund but as an illustration the Federated Prime Rate Cash Plus fund referred to above returned 1.12% (on an annualised since inception basis) in the year to the end of November 2013. By contrast, our investments in the CNAV equivalent yielded 0.4851% over the same period. VNAV MMF's run by other fund managers e.g. Ignis, Insight and SWIP yielded returns ranging from 0.59% to 0.94% over the same period, all of which exceeded the returns on any of our CNAV MMF's. Past yields are no guarantee of future performance but it can be seen that the addition of VNAV MMF's offers the opportunity of potentially increased investment returns for low capital risk in this current investment interest rate environment.

As already mentioned, it is recommended that investments in a VNAV MMF should be for the medium term i.e. 6 months and preferably longer. During 2012/13, the balance in our Federated Prime Rate CNAV MMF was maintained at £6m throughout the year and has been maintained at £9m during 2013/14 to date. It is clear therefore that there is a significant amount of what might be termed "medium to long term" cash flow monies that could be transferred to a new VNAV MMF fund and it is recommended that for 2014/15 an overall limit of £6m in VNAV MMF's funds be established.

B) Corporate Bonds

Corporate Bonds are issued by financial institutions such as banks and also Corporates e.g. Total, GE Electric, SSE, Volkswagen and so on in order to raise long term capital or funding. The bond offers a fixed interest rate (known as the coupon) which is payable twice a year and the bond is issued to a particular date (known as the maturity date) .The bonds are regularly bought and sold in the same way as Gilts and other tradable investments.

The bonds usually fall into one of two categories, investment grade bonds which have a credit rating of BBB or higher and high yield/speculative/junk bonds which are rated BB or lower. Corporate Bonds are rated in exactly the same way as banks so in line with our minimum long term credit rating criteria for banks the Council will only invest in Investment grade bonds rated by Fitch as A+ or higher (private sector institutions) or A or higher in respect of banks partly or wholly owned by the UK Government.

The bond will be purchased on a buy and hold basis i.e. the bond once purchased will be held until it matures as in our case, the objectives of such a purchase are to gain additional interest over other forms of investment vehicles i.e. money market deposits as opposed to any potential capital gain that might occur and also to spread the counterparty risk in the portfolio as we will have access to new counterparties.

In addition, in order to further protect the Council's investment in the event of a default in repayment by the bond issuer the bond purchased must be ranked as at least senior unsecured debt in the bond issuers Balance Sheet. Finally, the Council will only invest directly in Corporate Bonds with a maximum duration to maturity of two years. Any investments in Corporate Bonds beyond that duration will be via a Corporate Bond Fund (see 2.6a below)

The use of Corporate Bonds in 2014/15 is likely to be fairly limited but by way of illustration, in terms of yield Corporate Bonds issued by American Express (A+) and Rabobank (AA-) with a remaining term to maturity of 10-11 months are currently yielding 0.65% to 0.70% which compares favourably with the 1 year rate for fixed term investments with other Local Authorities of 0.60%.

As Corporate Bonds are a direct investment with a counterparty in much the same way as a fixed term deposit or Certificate of Deposit is, it is recommended that they are subject to the overall limit allocated to that type of counterparty as outlined in the Specified and Non –Specified Investments tables below.

C) Floating Rate Notes

Floating Rate Notes (FRN's) are corporate bonds where the interest rate is initially set at a fixed margin above 3 month LIBOR (London Inter Bank Offered Rate) and then reset every 3 months. They are issued by financial institutions and corporates and they are rated in exactly the same way as "standard" Corporate Bonds so it is proposed that the same credit rating criteria and counterparty limits as apply to Corporate Bonds should also apply to FRN's. They are very useful in a rising interest rate market as they protect our interest rate exposure to a maximum of 3 months. In the current low interest rate market it is unlikely that the Council will make use of Floating Rate Notes in 2014/15 but it is thought appropriate to add them now to our Specified Investments for future use

2.5 The types of investment that the council can use are listed below and described in more detail in Annex 1. These are split under the headings of specified and non-specified in accordance with statutory guidance.

Specified Instruments (maximum period 364 Days)

- Deposits with banks and building societies
- Deposits with UK Government, Nationalised Industries, Public Corporations, UK Housing Associations and UK Local Authorities
- UK Government Gilts with less than one year to maturity
- Debt Management Agency Deposit Facility (DMADF)
- Constant Net Asset Value Money Market Funds (AAA rated)
- Variable Net Asset Value Money Market Funds (AAAf rated)
- Certificates of deposits issued by banks and building societies
- Corporate Bonds issued by private sector financial institutions
- Corporate Bonds issued by financial institutions partly or wholly owned by the UK Government

- Corporate Bonds issued by corporates
- Supranational Bonds issued by Supranational Institutions or Multi Lateral Development Banks
- Floating Rate Notes issued by private sector financial institutions
- Floating Rate Notes issued by financial institutions partly or wholly owned by the UK Government
- Floating Rate Notes issued by corporates
- Eligible Bank Bills
- Sterling Securities guaranteed by HM Government

Non Specified Investments

- Deposits with unrated building societies
- Deposits with banks and building societies greater than 364 days
- Deposits with UK Housing Associations and UK Local Authorities greater than 364 days
- Certificates of deposits issued by banks and building societies greater than 364 days
- Corporate Bonds issued by private sector financial institutions greater than 364 days
- Corporate Bonds issued by financial institutions partly or wholly owned by the UK Government greater than 364 days
- Corporate Bonds issued by corporates greater than 364 days
- Corporate Bond Funds
- Regulated Property Funds including Real Estate Investment Trusts
- CCLA Property Fund
- Day to Day balances where Council's bankers do not meet the minimum bank credit rating criteria
- UK Government Gilts with over 364 days to maturity
- Supranational Bonds issued by Supranational Institutions or Multi Lateral Development with over 364 days to maturity

2.6 It is necessary to outline the reasons why the Council would use non specified investments and also the risks involved. The use of unrated building societies alongside Business Reserve and Call Accounts and Money Market Funds forms a useful tool for investing relatively small amounts of money for short periods of time (up to 3 months) and obtaining a decent return on the investment. There is of course a risk that the Building Society may fail during the maximum 3 month duration of an investment but this is not considered likely. As an additional safeguard, the Council will only invest in Category C i.e. unrated Building Societies with an asset value of £500m and over. In addition, investments in category C building societies are restricted to a group limit of £8m. With regard to deposits for more than one year, the advantage from a treasury management point of view is that there is a known rate of return over the period that the monies are invested which aids forward planning. There is however the increased risk due to the longer time span that a) the institution fails or b) interest rates rise in the meantime which is unlikely in the timeframe of the 2014/15 strategy. The current limit for investments longer than 364 days is 40% of the core investment portfolio subject to a maximum of £9 million at any one time and the maximum duration is 2 years. The proposed use of longer term investment vehicles such as Corporate Bond Funds and Property Funds (see paragraph 2.6 below) require these parameters to be changed. It is proposed that the maximum investment in Corporate Bond Funds and Property Funds is set at £5 million for each category of fund subject to an overall maximum of £10 million and that the maximum duration for these funds is set at 10 years although it is recognised that the Council is unlikely to operate a Corporate Bond Fund and Property Fund simultaneously and is also unlikely to utilise the full £10 million limit at any one time. In order to allow for these new long term vehicles and to retain sufficient flexibility within the strategy for core investments it is proposed to increase the current 40% limit for investments greater than 364 days to 60%. In line with the advice received from our Treasury Consultants it is also proposed that the maximum duration limit for investments with other Local Authorities is raised from 2 years to 5 years. The maximum duration for all other investment vehicles remains at 2 years. It is anticipated that the Council's average core investments will amount to £25m in 2014/15 and applying the new 60% limit will produce a maximum limit of £15m as opposed to the old £9m. The Council will manage its exposure to Corporate Bond Funds and Property Funds within this new limit with the balance of the limit being available for other investments with maturities up to 5 years.

2.7 As well as Corporate Bonds with a maturity date beyond 364 days, it is proposed to add Corporate Bond Funds and Property Funds to the list of Non Specified investments for 2014/15. These are discussed further below:-

A) Corporate Bond Funds

Corporate Bond Funds are as their name implies , pooled investment vehicles managed by professional fund managers which offer the potential for increased investment yields over the medium term i.e. 5 years and upwards. The fund holds bonds issued by a variety of institutions such as Government, Financial and Corporates with a mix of yields and credit quality and the object is to offer an enhanced yield without significant exposure to credit risk although it is up to the Council to determine what portfolio composition it is comfortable with.

Should the Council consider investing in a Corporate Bond fund it will only do so after identifying the level of core investment funds that it can set aside for a minimum of 5 years. It will also conduct a rigorous selection process in conjunction with its Treasury Advisers and it will only invest in a Sterling denominated investment grade fund.

By way of an indication of the sort of returns that can be generated, the Royal London Asset Management Sterling Credit Fund return over the past 5 years was 65.66% which outperformed its benchmark (iBoxx Sterling Non Gilts All Maturities Index) by 15.5% and the return for the last 12 months to November 2013 was 3.36%. It should be borne in mind that this is past performance and therefore no indicator of what returns might be achieved in the future but when viewed in the long term investing in a Corporate Bond Fund should provide a useful pick up in yield over our current investment vehicles..

B) Property Funds

Property Funds also offer an opportunity for enhanced yields in the medium to long term (5 to 10 years). There are two types of Property Fund, regulated and unregulated. A Regulated fund is authorised or recognised under the Financial Services and Markets Act 2000 and investments into these funds do not count as capital expenditure whereas investments into an unregulated fund do with the exception of the CCLA Local Authorities property fund due to an arrangement with HM Treasury.

A typical Property Fund owns and operates income producing properties and derives its income from the rentals paid by the occupants of those properties and any capital gains as a result of buying, refurbishing and selling of properties. Property Funds can provide stable returns in terms of fixed period rents and active management of the property portfolio can achieve higher rental income than average by selecting areas of growing demand or through refurbishments. The use of a Property Fund diversifies the investment portfolio and can provide attractive yields. For example, the CCLA Local Authorities Property Fund which has been running since 1972 had over the three years to 30th June 2013 an investment return of 5.8% (2.6% in the 1 year to 30th June 2013).which is comfortably above the Council's return from its core investments over the same period utilising traditional investment vehicles such as fixed term money market deposits.

As already mentioned, investing in Property Funds should be viewed as a long term strategy and should the Council consider investing in a Property Fund it will only do so after identifying the level of core investment funds that it can set aside for a minimum of 5 years. It will also conduct a rigorous selection process in conjunction with its Treasury Advisers.

No investments for more than 364 days excluding any forward deal periods will be made without the advice of our Treasury Consultants on the likely movement of interest rates over the period of the proposed investment and any investments over 364 days with building societies will be limited to £1m per counterparty.

2.8 Although the Council does not expect to use external investment agents in 2014/15, they are included in the circumstance of use column in the previous tables to allow for their possible use should it be appropriate to do so.

2.9 As a means of further diversifying risk whilst obtaining a reasonable return for cash flow derived investments, the Council uses the SunGard Money Market Funds Portal which will enable it to open further Money Market Funds as necessary and to be able to see on a daily basis before deciding with whom to invest which funds are offering the best rates.

3. INVESTMENT OBJECTIVES

3.1 All investments will be in sterling. The Council's investment priorities are the security and liquidity of its investments. The Council's objective will be to maximise the return whilst safeguarding the capital sum and avoiding cash flow problems. The Council will not engage in borrowing for purely investment purposes.

4. SECURITY OF CAPITAL

4.1 The Council relies on credit ratings published by Fitch Ratings which are supplied to it by its Treasury Advisers, whilst not the principal credit rating service used by the Council, attention will also be paid to credit ratings published by Moody's Investor Services and Standard & Poor's which are also supplied by Sector in order to broaden the sources of intelligence from which the Council gathers opinions on the performance of its investment counterparties. These ratings are used to establish the credit quality of counterparties and investment schemes. These institutions also issue regular ratings watch bulletins and where these are negative and affect one of our counterparties this will be taken into account when deciding whether or not to place future investments with them. The Council has also determined the minimum long term (365 days or more), short term (364 days or less) and other credit ratings it deems to be high for each category of investment and these are as shown in paragraph 2.3 above.

4.2 Individual credit ratings will be revised as and when changes are notified to the Council by its Treasury Advisers. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria then the counterparty / investment vehicle will no longer be used with immediate effect. This also applies to investments placed by fund managers. Similarly if a counterparty is upgraded so that it meets the Council's minimum credit rating requirements then it will be added to the Council's counterparty list.

4.3 The Council will also use the Credit Default Swap (CDS) information supplied by its Treasury Consultants to determine levels of investments with its counterparties once they have been selected using the criteria set out in 2.4 above. Counterparties with an in range CDS (as determined by our consultants) will be invested in as per the limits defined for that particular category of counterparty . Those counterparties with either a monitoring or an out of range status will not be invested in until their CDS returns to within range.

5. INVESTMENT BALANCES / LIQUIDITY OF INVESTMENTS

5.1 Based on its cash flow forecasts, the Council anticipates that its investments in 2014/15 on average will be in the region of £48m of which £25m will be "core" investments i.e. made up of reserves and balances which are not required in the short term.

5.2 The maximum percentage of its core investments that the Council will hold in long term investments (365 days or over) is 60%. It follows therefore that the minimum percentage of its overall investments that the Council will hold in short term investments (364 days or less) is 40% . Having regard to the Council's likely cash flows and levels of funds available for investment the amount available for long term investment will be a maximum of 60% of the core investment portfolio subject to a total of £15 million at any one time in line with the proposed Prudential Indicator covering this issue. These limits will apply jointly to the in house team and any fund manager so that the overall ceilings of 60% and £15 million are not breached.

6. INVESTMENT STRATEGY

6.1 The Council will continue to make use of MoneyMarket Funds (MMF's) and the Money Markets to invest cash flow driven money to known dates where large debts such as precepts, NNDR etc. have to be paid out. Based on the cash flow experienced to date in 2013/14 it is unlikely that this will result in the average length of a cash flow investment being more than 3 months in 2014/15 and probably considerably less. Core investments (i.e. investments not needed for payment of debts) will continue to be invested in the best part of the market based on the advice issued by our Treasury Advisers.

6.2 The 2014/15 interest rate outlook is for Bank Rate to remain at 0.50%

throughout the year depressing investment returns so in order to try and maximise the return on our investments whilst fully protecting the security of the capital, the Treasury Function has considered various ideas and it is proposed that variable Net Asset Value Money Market Funds, Corporate Bonds, Floating Rate Notes, Corporate Bond Funds and Property Funds are added to the types of investment vehicles in which the Council is permitted to invest. In the case of Corporate Bonds and Floating Rate Notes any such investments will count against the overall limit for each type of counterparty as defined in the table in Annex 1.

6.3 Based on current investment policies and interest rate projections, it is currently estimated that the overall portfolio will achieve a 0.64% return for 2014/15.

7. EXTERNAL CASH FUND MANAGEMENT

7.1 The performance of fund managers will be kept under review using our Treasury Consultants and should it be felt appropriate to do so then the Council may engage a fund manager in order to enhance returns and spread risk. The appointment process will be subject to the Council's procurement rules and handled in conjunction with our Treasury Consultants in order to ensure that the Council secures best value.

8. END OF YEAR INVESTMENT REPORT

8.1 In accordance with the requirements of the Treasury Management Code of Practice, the Treasury Management function reports on its in year activities to the Finance & Audit Scrutiny Committee twice a year i.e. at mid year and at the end of the year.

APPENDIX C

MINIMUM REVENUE PROVISION POLICY STATEMENT

1. BACKGROUND

1.1 Capital expenditure can be financed in a number of ways, not least of which is through borrowing and credit arrangements such as finance leases. The use of these 2 methods involves the Council in setting aside resources each year in order to eventually pay off the liability for example a maturing PWLB loan. Until recently, this set aside was prescribed nationally through Statutory regulations and was set at 4% per annum of the General Fund Capital Financing requirement (CFR). There was no similar requirement within the Housing Revenue Account although Council's could make voluntary provision if they so wished. The statutory regulations were superseded by statutory guidance issued under Statutory Instrument 2008 no.414 which says that " A local authority shall determine for the current financial year an amount of minimum revenue provision (MRP) that it considers prudent" .Where a Council's CFR at the end of the preceding year is nil or negative there is no requirement to charge MRP.

1.2 It is a requirement of the statutory guidance that a statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which it relates. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. THE FOUR MAIN OPTIONS

Option 1 – Regulatory Method

2.1 This option is the old statutory method of 4% of the CFR and which has to be used in order to calculate MRP on all debt still outstanding at 1/4/08 and it can also be used to calculate MRP on debt incurred under the new system but which is supported through the annual SCE (Supported Capital Expenditure) allocation from DCLG.

Option 2 – Capital Financing Requirement Method.

2.2 This is a variation of option 1 and is based upon 4% of the CFR with certain changes and is appropriate where the borrowing is not linked to a particular asset.

Option 3 – Asset Life Method.

2.3 Under this option, it is intended that MRP should be spread over the useful life of the asset financed by the borrowing or credit arrangement. In future, where borrowing is utilised to finance specific assets it is likely that the period of the loan will match the expected life of the asset and therefore, under this method the annual charge to the Council's accounts is directly related to building up the provision required to pay off the loan when it matures which under options 1 and 2 is not possible.

2.4 There are 2 methods of calculating the annual charge under this option a) equal annual instalments or b) by the annuity method where annual payments gradually increase during the life of the asset.

Option 4 – Depreciation Method.

2.5 This is a variation on option 4 using the method of depreciation attached to the asset e.g. straight line where depreciation is charged in equal instalments over the estimated life and the reducing balance method where depreciation is greater in the early years of an assets life and which is most appropriate for short lived assets e.g. vehicles. In this Council's case assets are depreciated using the straight line method and so option 4 is not materially different from option 3.

3. HRA MINIMUM REVENUE PROVISION.

3.1 Under the Self Financing regime, the HRA Business Plan has to provide resources for the repayment of the £136.157m borrowed from the PWLB on the 28th March 2012. Repayment of this debt is currently provided for commencing in year 41 (2052/53) and continuing through to year 50 year of the Business Plan. Provision will also have to be made for any use made of the £13.843m "headroom" between the Self Financing debt settlement i.e. the PWLB borrowing and the "Debt Cap" imposed by the Government.

4. RECOMMENDATION FOR 2014/2015.

4.1 It is recommended that for any long term borrowing on the General Fund which is incurred in 2014/2015, the following methods of Minimum Revenue Provision be adopted:-

For borrowing which cannot be linked to a particular asset – Option 2.
For borrowing linked to a particular asset – Option 3 based on the annuity method.

4.2 For any borrowing incurred through Finance Leases, the annual principal repayments in the lease are regarded as MRP.

4.3 Although not strictly part of Minimum Revenue Provision requirements, it is also recommended that for internal borrowing (i.e. capital expenditure financed from reserves) , where appropriate, Option 3 based on the annuity method be adopted as a means of replenishing those reserves which financed the capital expenditure.

4.4 With regard to the HRA, annual MRP to be equal to any amounts set aside for debt repayment within the Business Plan which currently is nil for 2014/15.

APPENDIX D

AN EXPLANATION OF CREDIT RATING TERMS

1. Sovereign Credit Rating

1.1 Fitch assigns a long term credit rating to the country in which the financial institution being rated is domiciled. This credit rating assesses the economic health of the country including its ability to service its debt and also its capacity to support the banking system in that country should financial support be required. The assessment follows the normal long term rating scale, the highest rating being AAA with anything below BBB being non investment grade i.e. "junk bond status". The UK has a AAA rating and the Council's policy is to invest only in institutions where the state in which they are domiciled has at least the same sovereign rating as the UK at the point in time when the investment was placed.

2. International Long - Term Credit Ratings

2.1 Long - term credit ratings are an attempt to assess the ongoing stability of an institutions prospective financial condition given such factors as sensitivity to fluctuations in market conditions and the capacity for maintaining profitability or absorbing losses in a difficult operating environment. Traditionally they look beyond a 12 month horizon. Investment grade ratings range from BBB to AAA.

2.2 With the exception of those institutions referred to in paragraph 2.3, the minimum rating that WDC will use is A+ which is mid range in the ratings referred to above. A ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. + is used to indicate a better than average status within the category.

2.3 Where an institution is either partly or wholly owned by the UK Government e.g. Lloyds Banking Group, Royal Bank of Scotland the minimum long term rating will be A in recognition of the fact that the UK Government is behind the institution as "lender of last resort".

3. International Short - Term Credit Ratings

3.1 A short - term rating has a timescale of less than 12 months for most obligations and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

3.2 The minimum rating that WDC will use is F1. This indicates the strongest capacity for timely payment of financial commitments. It may have a + added to it to denote any exceptionally strong credit feature.

4. Viability Ratings

4.1 Viability ratings are a relatively new introduction by Fitch and effectively replace the old Individual ratings. The viability rating represents the capacity of a bank to maintain ongoing operations and to avoid failure in the absence of external e.g. Governmental support , Thus, viability ratings permit an evaluation separate from any consideration of outside support.

4.2 The Council's minimum individual rating is BBB which denotes good prospects for ongoing viability. The bank's fundamentals are adequate such that there is a low risk that it would have to rely on extraordinary support to avoid default. However, adverse business or economic conditions are more likely to impair this capacity rather than say an A rating.

5. Support Indicator

5.1 This indicator gives an indication as to how much external support , predominately from the state, a bank could expect to receive if it were to run into difficulties. The range is from 1 to 5 with 1 being the highest degree of support and 5 the lowest. 1 is assigned only to banks for which there is an extremely high probability of external support e.g. Barclays Bank in the UK. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question e.g. the UK Government which is rated AA+. WDC will only invest in institutions with a Support Indicator of 1.

APPENDIX E

Capita Asset Services' View of the Economic Background

1. THE UK ECONOMY

1.1 **Economic growth.** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.7%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the February quarterly Inflation Report for 2014 to 3.4%, 2015 to 2.7% and 2016 to 2.8% The February Report stated that: -

The UK recovery has gained momentum and inflation has returned to the 2% target. Reduced uncertainty, easier credit conditions and the stimulative stance of monetary policy should support continued solid economic growth, with the expansion in demand becoming more entrenched and more broadly based.
Robust growth has not so far been accompanied by a material pickup in productivity. Instead, employment gains have been exceptionally strong and unemployment has fallen much more rapidly than expected. The LFS headline unemployment rate is likely to reach the MPC's 7% threshold by the spring of this year. Even so, the Committee judges that there remains spare capacity concentrated in the labour market.
Inflation is likely to remain close to the target over the forecast period. Given this, and with spare capacity remaining, the MPC judges that there remains scope to absorb slack further before raising Bank Rate. Moreover, the continuation of significant headwinds — both at home and from abroad — mean that Bank Rate may need to remain at low levels for some time to come.

1.2 **Forward guidance.** The Bank of England issued forward guidance in August which stated that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) had fallen to 7% or below. However, unemployment has fallen much quicker than the Bank expected and currently (17.2.14) stands at 7.1%. Accordingly, the Bank has now broadened its approach as follows: -

1. The MPC reckons there is spare capacity in the economy of 1-1.5% of GDP, mainly in the labour market
2. They will refrain from raising Bank Rate until a significant inroad has been made into reducing this spare capacity

3. They will provide additional forecasts based on eighteen economic indicators which they will take into account in considering the path of Bank Rate and QE
4. First increase in Bank Rate likely to be around Q2 2015
5. Rate rises will be slow and gradual (translation - probably 25bp per quarter)
6. Carney expected that Bank Rate would be around 2% in three years time i.e. Q1 2017
7. Bank Rate is unlikely to get back up to pre crisis levels of 5% even when the economy has returned to normal
8. The Bank will not sell any of their portfolio of asset purchases before the first rise in the Bank Rate (but that does not mean they WILL start then!) and will also reinvest maturing gilts until then
9. They were more pessimistic on growth of productivity which has failed to keep pace with rises in output
10. They will make it a priority to protect growth in the economy provided inflation remains subdued (inflation forecast to be well behaved over the next two years: 1.9% in two year's time)

1.3 Forward surveys are currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates.

1.4 **Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, started in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still far below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been much weaker. The Bank does not feel that Bank Rate increases would be effective in reducing house price inflation in London as a large part of property purchases is being done as cash transactions and / or by foreign purchasers, and is aggravated by a major short fall in new housing supply compared to the level of demand. As for bank lending to small and medium enterprises, this continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

1.5 **Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.0% in December. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

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

2. THE GLOBAL ECONOMY

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

2.2 Sentiment in financial markets improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50 – 60%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness,

2.3 **USA.** The economy has managed to return to robust growth in Q2 2013 of 2.5% y/y and 3.6% y/y in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve therefore decided in December to reduce its $85bn per month asset purchases programme of quantitative easing by $10bn and by another $10bn in January. It also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. Consumer, investor and business confidence levels have all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

2.4 **China.** There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

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

3. CAPITA ASSET SERVICES FORWARD VIEW

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

3.2 There could well be volatility in gilt yields over the next year as financial markets anticipate further tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. However, the political deadlock and infighting between Democrats and Republicans over the budget and raising of the debt limit, has finally been resolved. This removes two destabilising issues for bond yields but investor concerns over the impact of tapering on emerging market countries created a surge of volatility during January, and especially in reaction to adverse political and economic developments in Argentina and Turkey.

3.3 The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

3.4 The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.5 The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

3.6 Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the raising of the US debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- Recapitalising of European banks requiring more government financial support
- Lack of support by populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Heightened political risks in the Middle East and East Asia which could trigger safe haven flows back into bonds.

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

- A further upturn in investor confidence that robust world economic growth is firmly expected, causing a flow of funds out of bonds into equities.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX F

GLOSSARY OF TERMS

Basis Point (BP)	1/100th of 1%, i.e. 0.01%
Bank Rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a

	swap/etc.)
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
CFR	Capital Financing Requirement.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	Department for Communities and Local Government.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
Gilt	Registered british government securities giving the investor an absolute commitment from the government to honour the debt that those securities

	represent.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust.
Monetary Policy Committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.
Treasury Bill	Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.