Harlow Council

Annual Treasury Management Report 2013/14

Introduction

1. This Strategy sets out the Council's outturn position in accordance with proper practice.

2. It provides a review of external economic conditions impacting on the Council and focuses on the major issues affecting its borrowing and investments.

3. The Council uses treasury management advisors to help its decision making, keeping officers up to date with economic developments and providing training and support. Arlingclose Limited was appointed in December 2012 following a competitive process.

4. Economic background and commentary is provided by Arlingclose throughout this Report. Throughout 2013/14 interest rates remained low with the Bank of England base rate at 0.5%. This meant that interest earnings on investments remained low. Similarly, borrowing rates remain low, which has represented a net benefit to the General Fund budget.

5. As stewards of public finance, the Council will continue to take all practical steps to protect its investment portfolio. In this respect, emphasis remains in this order of priority:
   - **Security:** reducing risk in order to protect the return of capital sums, particularly in relation to the Council's investments.
   - **Liquidity:** ensuring that investments are not committed for excessive time-periods in order to facilitate the Council's cashflow requirements and to reflect the risk of not having immediate access to funds.
   - **Yield:** obtaining a reasonable return on investments.

6. An added complication during 2013/14 was the well-publicised difficulties experienced by the Cooperative Bank which faced a substantial re-capitalisation in December 2013 taking it to the brink of closure. Its Credit Rating was assigned "junk status" in May 2013 when the news broke and our advisors urged Councils no longer to invest money with the Bank. Officers took immediate steps to discontinue holding funds overnight in its Business Reserve Account. Contingency plans were later made to safeguard against losses which might have resulted from the sudden closure of the bank. In November the Cooperative Bank announced a planned withdrawal from the local authority market. Harlow Council has therefore been obliged to seek

new bankers through a tendering process. An appointment will be made shortly.

Introduction

7. Harlow Council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires it to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that Councillors are informed of treasury management activities at least twice a year.

8. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Department for Communities and Local Government (CLG) Investment Guidance.

9. The Council invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context (supplied by Arlingclose)

Economic background:

10. At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

11. With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a ***threshold*** for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

12. The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

13. CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the 'low for longer' interest rate outlook despite the momentum in the economy.

14. The Office of Budget Responsibility's 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition's austerity measures remained on track.

15. The Federal Reserve's then Chairman Ben Bernanke's announcement in May that the Fed's quantitative easing (QE) programme may be 'tapered' caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. 'Tapering' (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from $75bn to $55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for

yield through riskier asset, suffered large capital outflows in December and January.

16. With the Eurozone struggling to show sustainable growth, the European Central Bank cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

17. Russia's annexation of the Ukraine in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

Gilt Yields and Money Market Rates:

18. Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

19. 3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

The Borrowing Requirement and Debt Management

	Balance on 01/04/2013 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2014 £m	Avg Rate %
CFR	226.683				226.227	
Short Term Borrowing[1]	0.000	0.000	0.000	0.000	0.000	0
Long Term Borrowing	211.837	0.000	0.000	0.000	211.837	3.31
TOTAL BORROWING	211.837	0.000	0.000	0.000	211.837	3.31
Other Long Term Liabilities	1.005	(-)0.379	0.000	0.000	0.626	
TOTAL EXTERNAL DEBT	212.842	(-)0.379	0.000	0.000	212.463	
Increase/ (Decrease) in Borrowing £m		(-)0.379			(-)0.379	

[1] Loans with maturities less than 1 year.

20. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31 March 2014 was £226.227million. Usable reserves and working capital, which are the internal resources available for investment, were £34.172million.

21. The Council's chief objective when borrowing money has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

22. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

23. At 1 April 2013 the Council held £211.837million of loans, as part of its strategy for funding previous years' capital programmes.

24. With short-term interest rates having remained much lower than long-term rates, it was more cost effective in the short-term to use internal resources. By doing so, the Council was able to reduce net borrowing costs despite foregone investment income and reduced overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 2-3 years as official interest rates remain low, it is unlikely to be sustained in the medium-term.

25. Total borrowing at 31 March 2014 was £211.837million.

<u>Investment Activity</u>

26. Both the CIPFA and the CLG's Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

Investment Counterparty	Balance on 01/04/2013 £m	Balance on 31/03/2014 £m	Avg Rate %
Banks and building societies and other organisations - Short-term	6.991	16.030	0.52
AAA-rated Money Market Funds	11.800	12.430	0.35
TOTAL INVESTMENTS	18.791	28.460	0.45
Increase/ (Decrease) in Investments £m		9.669	

27. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher.

28. Investments with banks and building societies were call accounts and fixed-rate term deposits. The maximum duration of these investments was 6 months in line with the prevailing credit outlook during the year as well as market conditions.

Credit developments and credit risk management

29. The Council, with the assistance of our treasury management advisors, assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price. The minimum long-term counterparty credit rating determined by the Authority for the 2013/14 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

30. The debt crisis in Cyprus was resolved by its government enforcing a 'haircut' on unsecured investments and bank deposits over €100,000. This resolution mechanism, in stark contrast to the bail-outs during the 2008/09 financial crisis, sent shockwaves through Europe but allowed banking regulators to progress reform which would in future force losses on investors through a 'bail-in' before taxpayers were asked to support failing banks.

31. The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

32. Proposals were also announced for EU regulatory reforms to Money Market Funds which may result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper in the future.

33. The material changes to UK banks' creditworthiness were (a) the strong progress made by the Lloyds Banking Group in strengthening its balance

sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%, (b) the announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability) and (c) substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

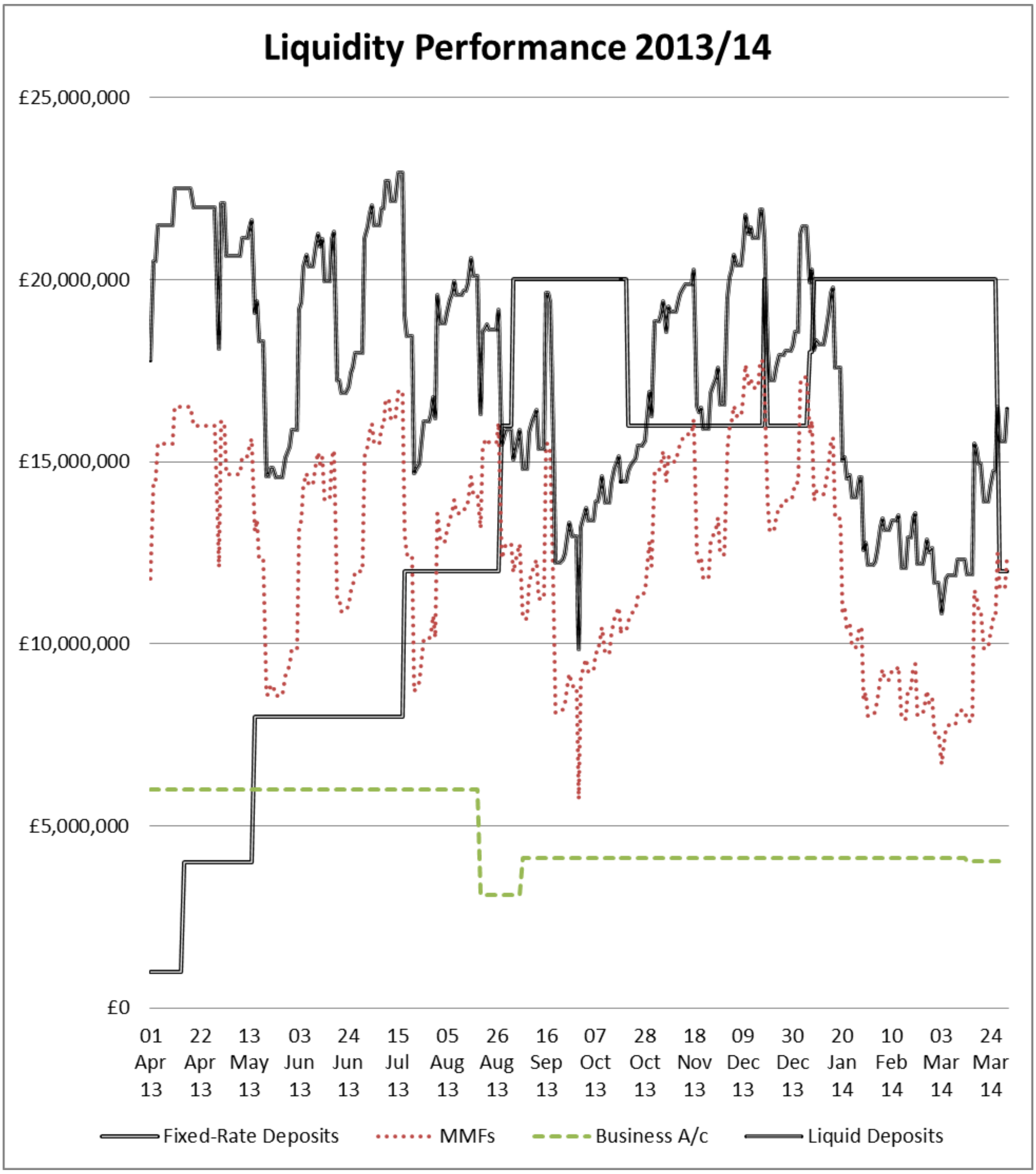
34. In July 2013 Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Council reduced its duration to overnight for new investments with the RBS Group. In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Council's minimum credit criterion of A-, the two banks were withdrawn from the counterparty list for further investment.

35. The Co-op's long-term ratings were downgraded by Moody's and Fitch to Caa1 and B respectively, both sub-investment grade ratings. (Moody's long-term rating was further downgraded to Caa2 on 24 April 2014.) The Co-op Bank raised £400m in additional capital which has lowered the Co-op Group's shareholding in the bank to 20.1%. This capital raising is only the first step in the bank's 4-5 year turnaround strategy. The Co-op Group is also progressing with the sale of aspects of its business (pharmacies, farms), the net proceeds will be used to reduce the Co-op Group's debts and invest in its core businesses. The bank has also embarked on proposals for governance reform.

Liquidity Management

36. In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity averaging 56.96% through the use of Money Market Funds, overnight deposits and call accounts. The Council uses a simple cash flow forecasting model to determine the maximum period for which funds may prudently be committed.

37. The following graph illustrates the amounts invested as temporary investments and liquid investments.



Yield

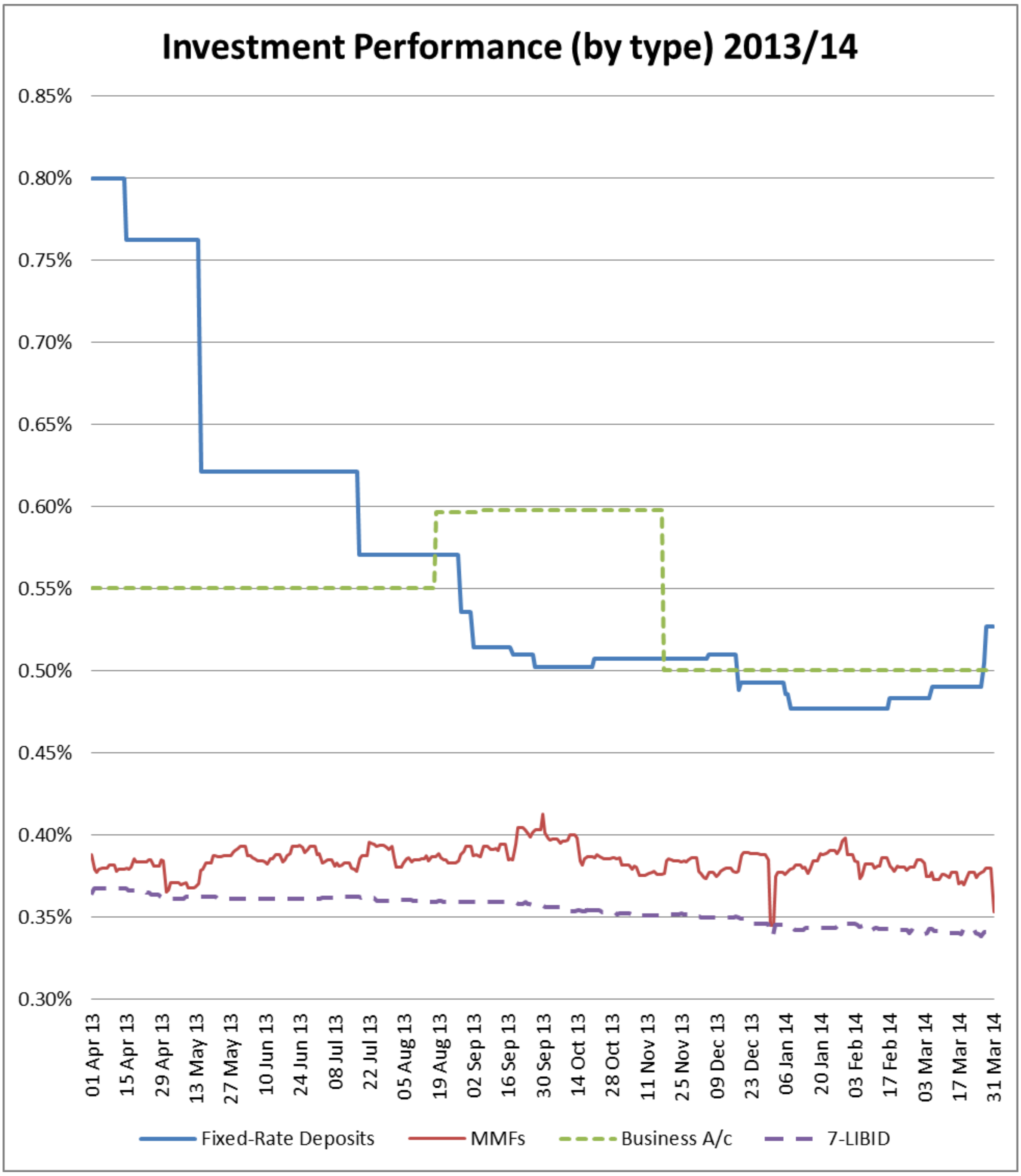
38. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low level which continued to have a significant impact on investment income. The low rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.

39. The Council earned an average rate of return of 0.47%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%.

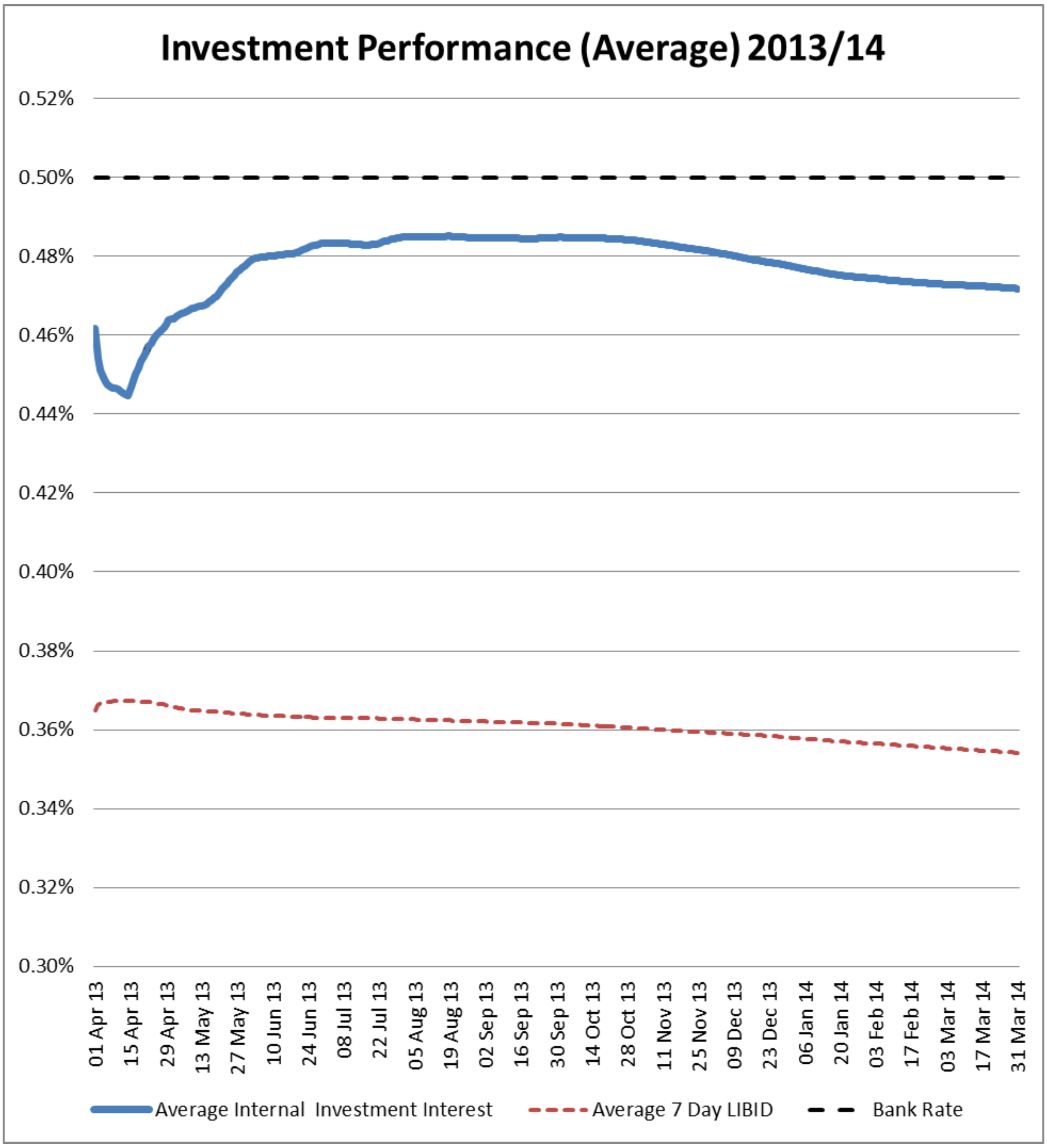
This compare with a budget assumption of investment balances earning a rate of 0.7%.

40. The following graphs illustrate:

a. The rate of return on individual investments



b. Yield Performance 2013/14



Compliance

41. The Council confirms that it has complied with its **Prudential Indicators** for 2013/14, which were approved on 7 February 2013 as part of the Council's Treasury Management Strategy Statement.

42. In compliance with the requirements of the CIPFA Code of Practice this report provides Councillors with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to

investment activity with priority being given to security and liquidity over yield.

43. The Council also confirms that during 2013/14 it complied with its **Treasury Management Policy Statement** and **Treasury Management Practices**.

Other Items

44. **Authority's Banker**: Co-op Bank is currently the Council's banker and will, until such time that a new banking arrangement is in place (by 31 March 2015), continue to be used for operational and liquidity purposes.

45. In addition, with weekends the most likely time for regulatory action to occur, and with both bail-in rules and bank contracts unclear over netting arrangements, in order to mitigate risk the Council makes every effort to keep the ledger balance in each Co-op current account at close to zero at close of each business day.

46. **Investment Training**: The needs of the Council's treasury management staff for training in investment management is regularly assessed, and additionally when the responsibilities of individual members of staff change.

47. During 2013/14 staff attended training courses, seminars and conferences provided by Arlingclose.

Annex A: Debt and Investment Portfolio Position 31/3/2014

	31/3/2014 Actual Portfolio £m	31/3/2014 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	211.837	3.31%
Total External Borrowing	**211.837**	**3.31%**
Other Long Term Liabilities:		
Finance Leases	0.626	
Total Gross External Debt	**212.463**	
Investments:		
Short-term investments	28.560	0.45%
Long-term investments	0	
Total Investments	**28.560**	**0.45%**
Net Debt	183.903	

<u>Mortgage and other loans Rate</u>

Schedule 16 of the Housing Act 1985 specifies that local authorities must set the interest rate on mortgages arranged since October 1985 on an annual basis. Councils are required to charge the higher of:

i. The Standard National Rate, which is set by the Secretary of State (2013/14: 3.13%) or,
ii. The applicable local average rate, based on the Council's own borrowing costs and a small percentage (0.25%) for administration.

The interest rate charged in 2013/14 was therefore 3.56%.

Annex B

(a) Capital Financing Requirement (CFR)

Estimates of the Council's cumulative maximum external borrowing requirement for 2013/14 to 2015/16 are shown in the table below:

Capital Financing Requirement	31/03/2014 Approved £m	*31/03/2014 Revised £m*	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
General Fund	30.978	27.835	**27.920**	27.547	28.510
HRA	198.307	198.307	**198.307**	198.307	198.307
Total CFR	**229.285**	**226.142**	**226.227**	**225.854**	**226.817**

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/2014 Approved £m	*31/03/2014 Revised £m*	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Borrowing	211.837	211.837	**211.837**	211.837	211.837
Finance leases	0.636	0.636	**0.636**	0.194	0.084
Total Debt	**212.473**	**212.473**	**212.473**	**212.031**	**211.921**
Borrowing in excess of CFR?			**No**	No	No

Total debt is expected to remain below the CFR during the forecast period.

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities, which comprise finance leases are not borrowing but do form part of the Council's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

There were no breaches to the Authorised Limit and the Operational Boundary during 2013/14; borrowing at its peak was £211.837m.

	Operational Boundary (Approved) 31/03/2014	Authorised Limit (Approved) 31/03/2014	**Actual External Debt 31/03/2014**
Borrowing	242.0	250.0	211.837
Other Long-term Liabilities	2.0	5.0	0.636
Total	**244.0**	**255.0**	**212.473**

(c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	**Actual Fixed Rate Borrowing at 31/03/2014 £m**	% Fixed Rate Borrowing at 31/03/2014
under 12 months	**0**	0
12 months and within 24 months	**0**	0
24 months and within 5 years	**0**	0
5 years and within 10 years	**0**	0
10 years and within 20 years	**125.302**	3.19
20 years and within 30 years	**83.534**	3.48
30 years and within 40 years	**3.000**	4.49
40 years and within 50 years	**0**	0
50 years and above	**0**	0

(d) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	31/03/2014 Approved £m	*31/03/2014 Revised £m*	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Non-HRA	2.996	2.734	**2.548**	3.393	2.231
HRA	22.392	26.297	**24.846**	26.549	20.236
Total	**25.388**	**29.031**	**27.394**	**29.942**	**22.467**

Capital expenditure has been and will be financed or funded as follows:

Capital Financing	31/03/2014 Approved £m	*31/03/2014 Revised £m*	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
Capital receipts	0.684	5.867	**2.489**	3.668	2.036
Government Grants	3.266	3.478	**5.156**	6.099	1.277
Reserves	10.177	19.661	**18.619**	18.850	17.565
Revenue contributions	9.251	0.025	**1.101**	1.007	0.285
Total Financing	**23.378**	**29.031**	**27.365**	**29.624**	**21.163**
Unsupported borrowing	2.010	0.000	**0.029**	0.318	1.304
Total Funding	**2.010**	**0.000**	**0.029**	**0.318**	**1.304**
Total Financing and Funding	**25.388**	**29.031**	**27.394**	**29.942**	**22.467**

(e) Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/2014 Approved %	*31/03/2014 Revised %*	**31/03/2014 Actual %**	31/03/2015 Estimate %	31/03/16 Estimate %
Non-HRA	6.02	5.86	**5.86**	6.05	7.03
HRA	13.09	12.11	**12.11**	12.13	11.62

(f) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

Full Council approved the adoption of the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice’* at its meeting on 10 February 2010.

(g) HRA Limit on Indebtedness

HRA Debt Cap (as prescribed by CLG)	£208.837m				
	31/03/2014 Approved £m	*31/03/2014 Revised £m*	**31/03/2014 Actual £m**	31/03/2015 Estimate £m	31/03/16 Estimate £m
HRA CFR	198.307	*198.307*	**198.307**	198.307	198.307
Difference	10.530	10.530	**10.530**	10.530	10.530

Annex C
Glossary of Terms and Definitions

Bank Rate:
The term 'Bank Rate' is 'the official Bank Rate paid on commercial bank reserves', i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets. Previously referred to as "repo rate" this term has been replaced as a result of the change in terminology used by the Bank of England as from May 2006

Base Rate:
The term Base Rate refers to the rate which is set by each high street bank; it is the key foundational rate on which they each base all their various lending rates to customers. It is normally set at the same rate as the Bank Rate (q.v.) and changes in line with, and very soon after changes in Bank Rate.

CFR: see 'Capital Financing Requirement'

CRA: see 'Credit Rating Agency'.

Call Account: 'Call account' is a bank deposit where funds can be withdrawn at any time.

Capital Financing Requirement
The Capital Financing Requirement reflects the Council's underlying need to borrow for capital purposes. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing, the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the Public Works Loan Board (q.v.).

CIPFA Treasury Management Code of Practice
This represents official practitioners' guidance, which is produced by CIPFA (the Chartered Institute of Public Finance and Accountancy). The government expects local authorities and other public service authorities to adopt and comply with the code. The recommendations made in the Code provide a basis for all these public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices.

CLG: Department for Communities and Local Government

Counterparty
A counterparty is a party with which a transaction is done.

CPI: Consumer Prices Index

Credit Default Swaps
A CDS is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event (e.g. default) of the reference entity (i.e. the third party on

whom the contract is based). The contract essentially provides a means of insurance to the buyer of the CDS against default by a borrower. The “spread” (effectively the premium paid by the CDS buyer) provides an indication of the perceived risk of a default occurring.

Credit Rating
A credit rating is an estimate of the quality of a debt from the lender viewpoint in terms of the likelihood of interest and capital not being paid and of the extent to which the lender is protected in the event of default.

An individual, a firm or a government with a good credit rating can borrow money from financial institutions more easily and cheaply than those who have a bad credit rating.

Credit Ratings are evaluated by Credit Rating agencies (q.v.).

Credit rating agency
‘Credit rating agency', or ‘rating agency', or CRA, is a firm that issues opinions on companies' ability to pay back their bonds. These opinions are often abbreviated on an alphanumeric scale ranging from AAA to C (or equivalent). The three CRAs used by the Council are Fitch, Moody's and Standard and Poor's.

Dealing
Is the process of carrying out transactions with a counterparty (q.v.), including agreeing the terms of an investment. This is usually conducted through a Money Market Broker.

ECB: European Central Bank

EU: European Union

Fed: The Federal Reserve (US)

Gilt
Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

HRA: Housing Revenue Account

HRACFR: Housing Revenue Account Capital Financing Requirement

ILO: International Labour Organization

Liquidity
Liquidity refers to an asset that can be turned into cash or the ability to quickly sell or buy an asset

LIBID: see 'London Interbank Bid Rate'

LIBOR: see 'London Interbank Offer Rate'

London Interbank Bid Rate
The 'London Interbank Bid Rate' (LIBID) is the rate of interest at which first-class banks in London will bid for deposit funds. Often used as a benchmark for deposit rates. LIBID is not fixed in the same way as LIBOR (q.v.), but is typically one-sixteenth to one-eighth of a per cent below LIBOR.

London Interbank Offer Rate
'London Interbank Offer Rate' (LIBOR) is the interest rate which banks pay when lending to each other. It is calculated at a specified time each day and based on what it would cost a panel of banks to borrow funds for various periods of time and in various currencies. It then creates an average of the individual banks' figures.

MMF: see 'Money Market Fund'

Money Market Fund
Money Market Funds are mutual funds that invest in short-term debt instruments. They provide the benefits of pooled investment, as investors can participate in a more diverse and high-quality portfolio than they otherwise could individually. Like other mutual funds, each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund. Money market funds are actively managed within rigid and transparent guidelines to offer safety of principal, liquidity and competitive sector-related returns. It is very similar to a unit trust, however, in a MMF equities are replaced by cash instruments. Returns are typically around 1 month LIBID (q.v.), and the average maturity is generally below 60 days.

MPC: Monetary Policy Committee

MRP: Minimum Revenue Provision

PWLB: see 'Public Works Loan Board'

Public Works Loan Board
The Public Works Loan Board (PWLB) is a UK Government statutory body whose function is to lend money from the National Loans Fund to local authorities and other public bodies and to collect the repayments.

QE: Quantitative Easing

Quantitative Easing
A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions, thus raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

Rating Agency: see ‘Credit Rating Agency’

SRM: Single Resolution Mechanism

Single Resolution Mechanism
This ensures that credit institutions and other entities which face serious difficulties, are resolved effectively with minimal costs to taxpayers and the real economy.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. They are also set at a fixed rate of interest.

Time Deposit: see ‘Term Deposit’

Treasury Management Strategy
This is the Council’s overall policy and framework by which it will carry out that policy in relation to its borrowing and investment needs in the coming financial year.

Treasury Management Policy Statement
This is the Council’s statement of intention in respect of its treasury management. It is prescribed by the CIPFA Treasury Management Code of Practice (q.v.).

Variable Rate Asset Value
‘Variable Rate Asset Value’ (VNAV) occurs where the net asset value, or principal sum, invested may change depending on trading conditions. The value is calculated at the end of the business day based on the value of investments less any liabilities divided by the number of shares outstanding. With investments carrying this attribute, the capital sum invested may not be equal to the capital sum repaid.

VNAV: see ‘Variable Net Asset Value’.