APPENDIX A

HARLOW COUNCIL
ANNUAL TREASURY MANAGEMENT REPORT 2014/15

Introduction

1. This report sets out the Council's outturn position in accordance with recommended 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 and more specifically market 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 2014/15 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 remained low, which has presented 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 on 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 access to funds.
   - **Yield:** obtaining a reasonable return on Investments.

6. The Council has in recent years run a portfolio fairly typical of similar Councils with investments in banks and building societies, through Money Market Funds and occasionally with other Councils. Investments have generally been for periods of no more than six months. This has enabled the Council to meet its treasury management priorities, although until very recently the yield for these investments has been below consumer price inflation. However, the Council's approach to investment has always protected its capital, placing security above anything else.

7. During 2014/15 the Council opened an account with the UK Government which provides the Council with a mechanism to hold any especially large balances or to be used during periods of severe market uncertainty. Investing with the Debt Management Agency Deposit Facility is a secure investment but the yield obtained is poor in comparison with other investments. The

facility was used towards the end of the year when it was necessary to hold grant income for a short period of time pending the purchase of land within the Enterprize Zone area.

8. During the financial crisis of 2008 the Government was committed to intervene to financially support banks which would have otherwise failed. This has subsequently led to much debate and press coverage which, in turn, caused the Government to seek reforms to its intervention in the banking system. As a result the Government has passed the 'Financial Services (Banking Reform) Act 2013' which fundamentally changed the obligations compulsorily placed upon creditors in the event of bank failure. The impact of this reform is that the Government would no longer provide bail-out support.

9. These bail-in regulations take effect during 2015. The 'Bank Recovery and Resolution Directive' (effective from January 2015) and 'Deposit Guarantee Schemes Directive' (effective from July 2015) will escalate Councils' compulsory obligations of support to a bank in which Council deposits are lodged should it fail or be at risk of failure. (These regulations are also designed to strengthen banks' financial position to safeguard against bail-in risk.) This means that the Councils' temporary investments (otherwise known as term deposits) with banks and building societies are at greater risk of capital loss should a bank have insufficient share capital or bad debt provision to cover its losses.

10. The Treasury Management Strategy Statement 2015/16 (TMSS 2015/16), which received Council approval on 6 February 2015, took immediate effect to permit a wider range and diversification of investment options to protect the Council from these regulatory changes. The latter part of 2014/15 saw a transitional period in our day-to-day investment strategy, with further changes occurring during 2015/16.

11. During 2014/15, the Council also transferred its banking services from the Cooperative Bank to Barclays Bank. These new arrangements, implemented as a result of a procurement process, commenced in December 2014 and were completed by 31 March 2015. This operation ran smoothly and allows the Council to invest money efficiently overnight with Barclays Bank through a Business Reserve account.

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

13. The Council's TMSS for 2014/15 was approved by full Council on 7 February 2014, and superseded by the TMSS 2015/16, for the reasons stated above, on 6 February 2015.

14. 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)

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

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

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

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

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

a closely contested general election campaign and markets braced for yet another hung parliament. In the event the Conservative Party achieved a slim majority and was able to form a Government in its own right.

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

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

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

Local Context

23. At 31 March 2015 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £226.420m, while usable reserves and working capital which are the underlying resources available for investment were £49.851m.

Borrowing Strategy

24. At 31 March 2015 the Council held £211.837m of loans as part of its strategy for funding previous years' capital programmes.

25. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with

flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

Borrowing Activity in 2014/15

	Balance on 01/04/2014 £m	Maturing Debt £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2015 £m	Avg Rate %
CFR						
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	0.626	(-)0.516	0.000	0.000	0.110	
TOTAL EXTERNAL DEBT	212.463	(-)0.516	0.000	0.000	211.947	
Increase/ (Decrease) in Borrowing £m					(-)0.516	

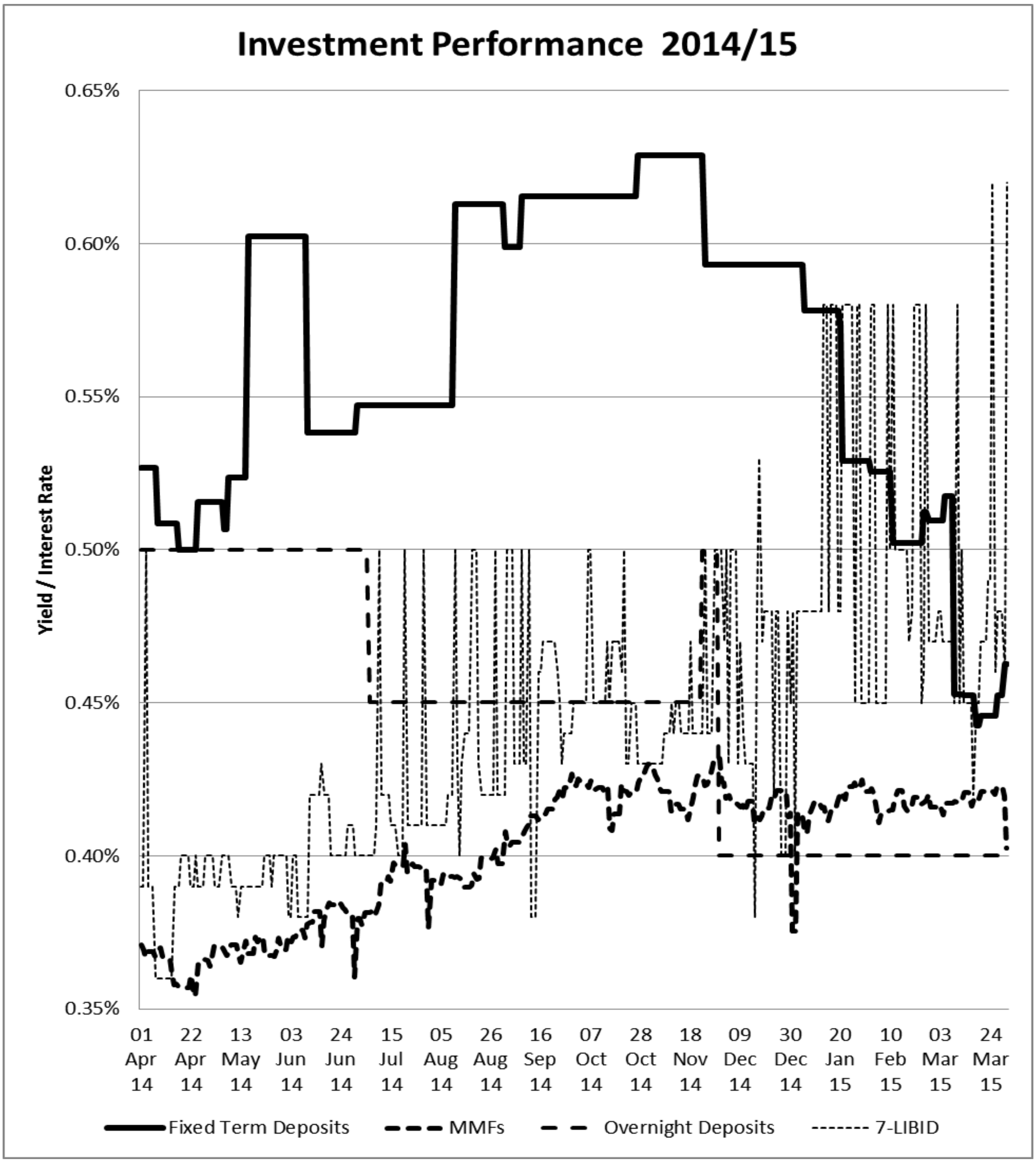
26. Abolition of the PWLB: In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The Council intends to use the Government's replacement for PWLB as a potential source of borrowing if required.

Investment Activity

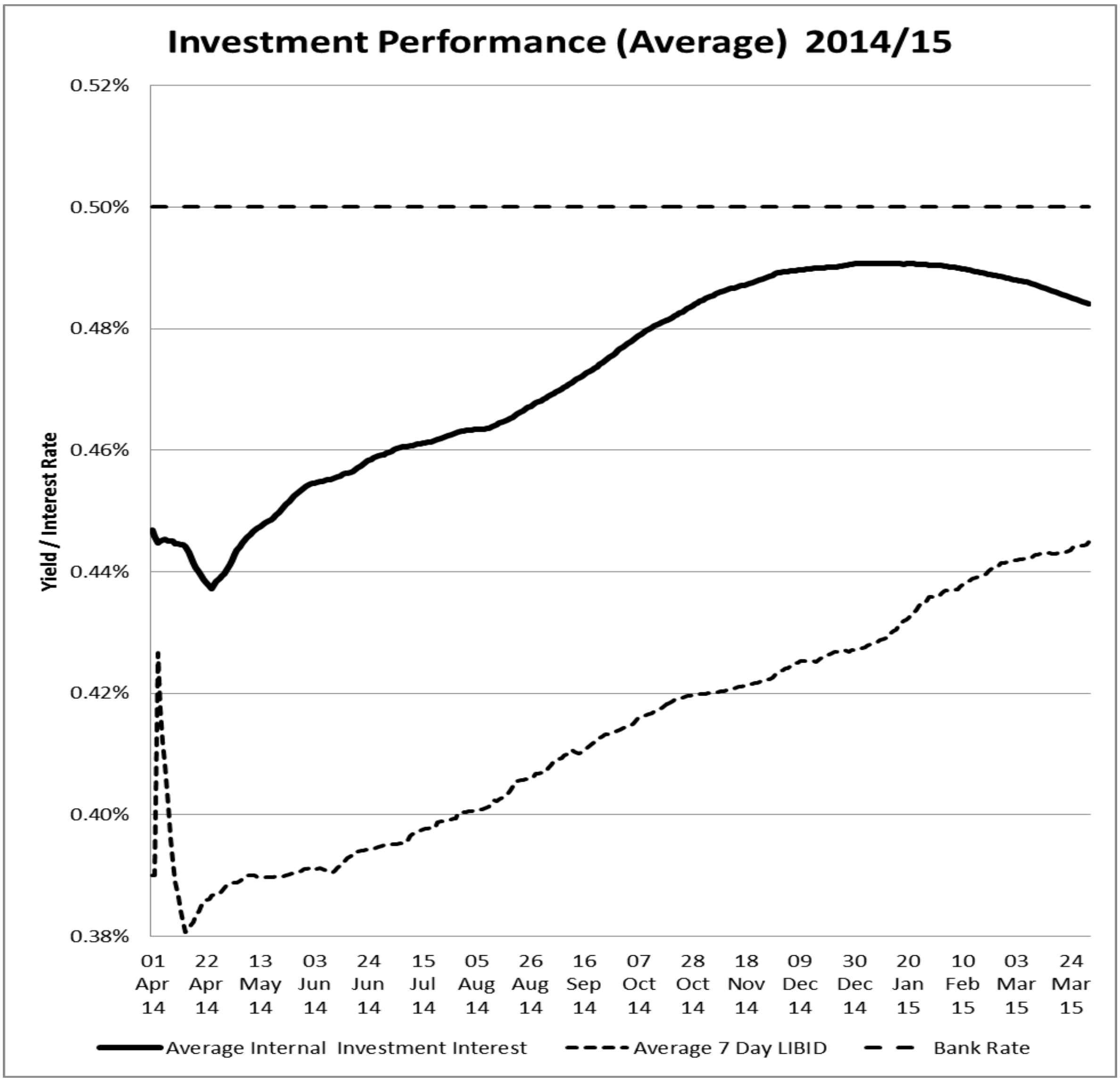
27. The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Council's investment balances have ranged between £27.084m and £52.012m, finishing the financial year at £44.916m. The figure is larger than normal because of a £11.205m grant received for the acquisition of land and infrastructure relating to the Harlow Enterprize Zone. Land was not wholly acquired as at 31 March 2015 so the Council carried an additional unplanned balance of £7.537m.

28. The following graph illustrates the yield for fixed term deposits and liquid investments (overnight deposits and Money Market Funds).

[1] Loans with maturities less than 1 year.



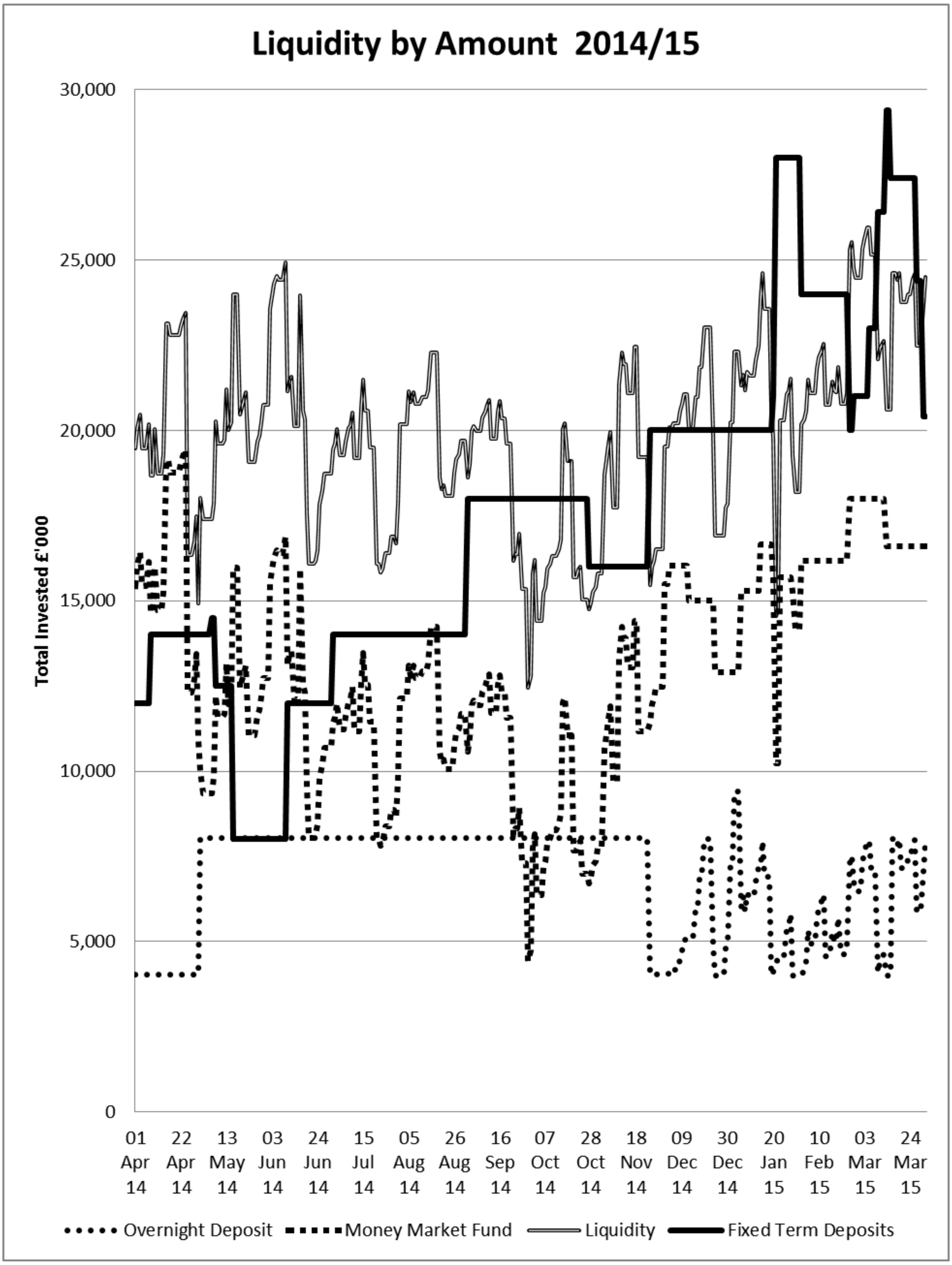
29. Overall Yield Performance is shown in the following graph.



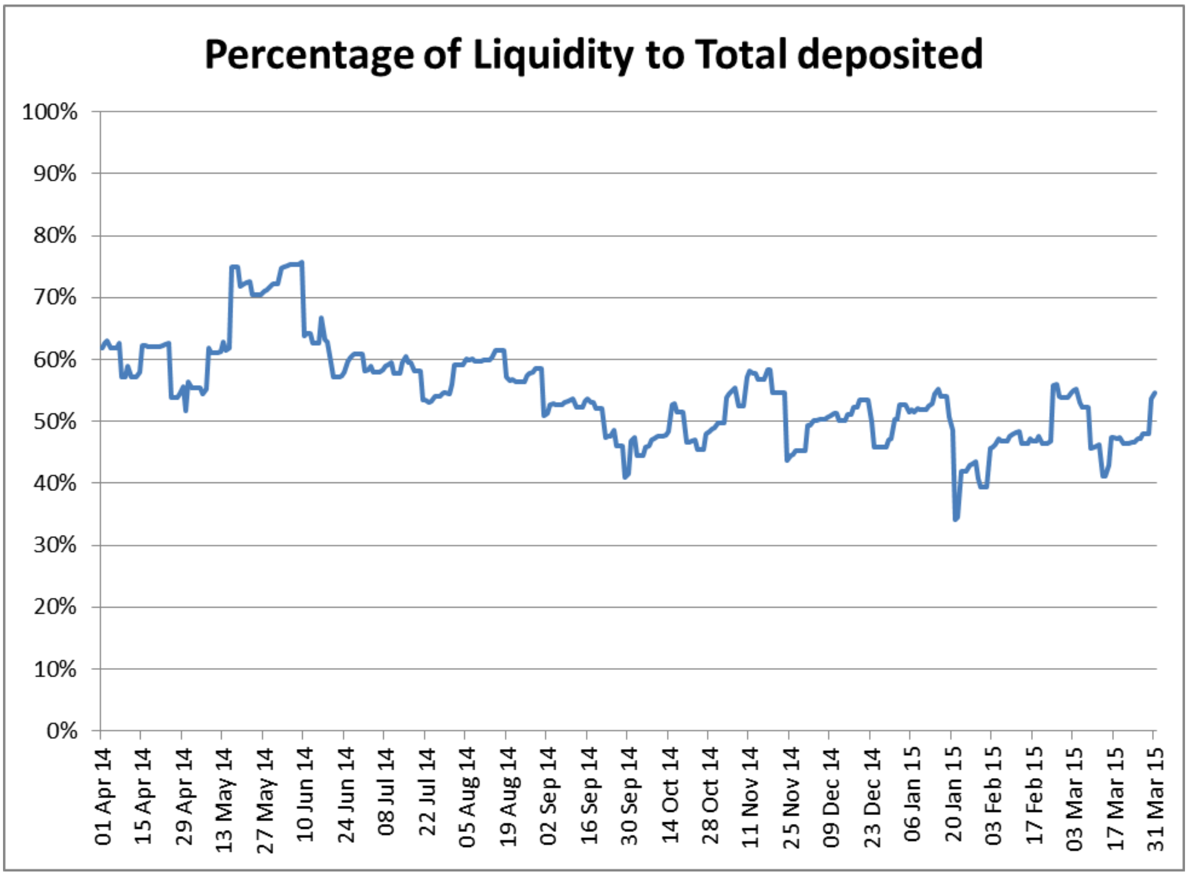
Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £m	Balance on 31/03/2015 £m	Avg Rate /Yield on 31/03/15 (%)
Short term Investments (call accounts, deposits) Banks and Building Societies Local Authorities	16.030 0.000	18.915 3.000	0.49 0.45
UK Government: DMADF	0.000	5.400	0.25
Money Market Funds	12.430	16.600	0.40
Building societies without credit ratings	0.000	1.000	0.56
TOTAL INVESTMENTS	28.460	44.915	0.43
Increase/ (Decrease) in Investments £m		16.455	

30. The amounts invested in fixed term deposits and overnight deposits is shown in the graph below. It should be noted that from December 2014 the Council began to use Barclays Bank Business Reserve account and reduced the number of transactions and movements through Money Market Fund accounts.



31. The proportion of liquid deposits as a percentage is shown in the graph below.



32. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

33. Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

Counterparty Update

34. The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on 15 April 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014/15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

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

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

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

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

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

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

41. The outlawing of bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits rose relative to other investment options. The Council therefore increasingly favoured diversified

alternatives such as non-bank investments over unsecured bank and building society deposits.

Compliance

42. The Council confirms compliance with its Prudential Indicators for 2014/15, which were set in February 2014 as part of the Council's Treasury Management Strategy Statement.

Other Items

Council's Bankers

43. The Council changed its bankers from the Cooperative Bank to Barclays Bank during 2014/15.

Investment Training

44. The Council has a small team of officers who are trained in treasury management activity. The organisation is not sufficiently large to have dedicated experts so it places reliance on support from its treasury management advisors.

45. The team of officers comprise those who provide strategic leadership with authorisation powers, and staff who are responsible for day-to-day cashflow management and dealing. A change in staff responsibilities necessitated foundation training to be given in the principles of treasury management as well as the opportunity to consider bank bail in. Arlingclose supported the Council in the delivery of this training, held at the Civic Centre.

46. Senior treasury management staff also attended seminars last autumn which considered the new regulatory environment (principally bank bail in). These were received from Arlingclose at their London office, and CIPFA's Treasury Management and Capital Conference 2014. Officers also took the opportunity to speak to brokers and to attend a presentation by a UK bank at their London head office. Having received this information this was reflected to our local situation in the TMSS 2015/16.

47. Staff maintain a watching brief on the economy, keeping abreast of BBC News, and alerts from Arlingclose. The culture of the organisation is such that if there are queries these will be raised between colleagues and to our treasury management advisors. Officers at all levels are trained to err on the side of caution and not to take unconsidered risks.

48. Councillors also received training from Arlingclose in February 2015.

Annex A
Existing Investment & Debt Portfolio Position

	31.3.15 Actual Portfolio £m	31.3.15 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	211.837	3.31%
Total External Borrowing	**211.837**	**3.31%**
Other Long Term Liabilities:		
Finance Leases	0.110	
Total Gross External Debt	**211.947**	
Investments:		
Short-term investments	25.315	0.44%
Pooled Fund (Money Market Funds)s	16.600	0.40%
Total Investments	**41.915**	**0.43%**
Net Debt	**170.032**	

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

Schedule 16 of the Housing Act 1985 specifies that Councils 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 (currently 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 chargeable is therefore 3.56%.

Annex B
Prudential Indicators 2014/15

The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(a) Estimates of Capital Financing Requirement (CFR)

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.15 Approved £m	31.03.15 Revised £m	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
General Fund	27.835	28.592	28.113	40.266	40.551	40.664
HRA	198.307	198.307	198.307	187.370	187.370	187.370
Total CFR	226.142	226.899	226.420	227.636	227.921	228.034

The CFR is forecast to rise by £1.6m over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

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	31.03.15 Approved £m	31.03.15 Revised £m	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	211.837	211.837	211.837	211.837	211.837
Finance leases	0.110	0.110	0.110	0.000	0.000
Total Debt	211.947	211.947	211.947	211.837	211.837

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

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

(b) Authorised Limit and Operational Boundary for External Debt

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	248.000	251.000	253.000	255.000
Other long-term liabilities	1.500	1.500	1.500	1.500
Total Debt	249.500	252.500	254.500	256.500

Authorised Limit for External Debt: The authorised limit 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.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Borrowing	250.000	255.000	260.000	265.000
Other long-term liabilities	5.000	5.000	5.000	5.000
Total Debt	255.000	260.000	265.000	270.000

(c) 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	2014/15 Estimate %	2014/15 Revised %	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %
General Fund	6.05	5.61	5.22	3.48	3.24
HRA	12.13	10.99	11.55	12.35	12.02

(d) Incremental Impact of Capital Investment Decisions:

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2014/15 Revised £	2014/15 Actual £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual Band D Council Tax	24.53	24.80	23.37	51.86	21.87
HRA - increase in average weekly rents	2.01	4.97	5.13	24.50	12.81

(e) Adoption of the CIPFA Treasury Management Code:

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.

Annex I
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.

BRRD: ‘Bank Recovery and Resolution Directive’

CD: see ‘Certificate of deposit'.

CDS: see ‘Credit Default Swaps’

CFR: see ‘Capital Financing Requirement’

CP: see ‘Commercial paper'.

CRA: see ‘Credit Rating Agency’.

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

Callable Deposit
Placing a deposit 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 upon 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.

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.).

Certificate of Deposit
A certificate of deposit is an unsecured investment issued by a bank or building society which is a fixed deposit, giving a guaranteed interest return. These differ from term deposits in that the lender is not obliged to hold the investment through

to maturity and may realise the cash by selling the CD into an active secondary market. This may be useful in instances where the counterparty receives a downgraded credit rating, or the investor encounters an unexpected cashflow issue. CDs are obtained through specialist brokers who deal through the primary and secondary market. CDs offer liquidity and greater access to counterparties who do not trade in term deposits.

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 Councils 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.

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
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.

DCLG: Department for Communities and Local Government

DMADF: see 'Debt Management Agency Deposit Facility'

DMO: see 'Debt Management Office'

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 broker.

Debt Management Agency Deposit Facility
Deposit Account offered by the Debt Management Office (q.v.), guaranteed by the UK government.

Debt Management Office
The Debt Management Office (DMO) is an executive agency of HM Treasury responsible for carrying out the government's debt management policy and managing the aggregate cash needs of the Exchequer. It is also responsible for lending to local authorities and managing certain public sector funds.

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.

ECB: European Central Bank

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.

EU: European Union

Fed: The Federal Reserve (US)

FLS: Funding for Lending Scheme

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

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: see 'forward deal'

Fund Manager
The individual responsible for making decisions related to any portfolio of investments in accordance with the stated goals of the fund.

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.

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

HRA: Housing Revenue Account

HRACFR: Housing Revenue Account Capital Financing Requirement

iTraxx benchmark
A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Lender Option Borrower Option
'Lender Option Borrower Option' (LOBO) is a floating rate instrument which allows the lender to designate an adjustment rate at periodic reset dates and lets the borrower decide whether to pay the rate or redeem the bond.

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'

LOBO: see 'Lender Option Borrower Option'

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, for the repayment of debt.

Open Ended Investment Companies (OEIC)
Investment funds that partly resemble an investment trust and partly a unit trust. Like investment trusts, they issue shares on the London Stock Exchange and invest money raised from shareholders in other companies. The term open-ended means that when demand for the shares rises the fund manager just issues more shares, instead of there being a rise in the share price. The price of OEIC shares is determined by the value of the underlying assets of the fund.

Other Bond Funds
Pooled funds investing in a wide range of bonds.

PWLB: see 'Public Works Loan Board'

Programme of Development
The balance of Programme of Development funding (POD) represents monies received from Central Government for regeneration in the east of England, and is held by the Council on behalf of a Partnership comprising local councils and partners from the third and private sectors. The funding was received after a series of successful bids by the Partnership.

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 Councils and other public bodies and to collect the repayments.

Rating Agency: see 'Credit Rating Agency'

Repo: see 'Repurchase Agreement'

Repurchase Agreement
'Repurchase agreement', or repo, is a contract where the seller of certain securities agrees to buy them back from the purchaser at a specified time for an agreed price.

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

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. These bonds – now 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.

T-bills: see 'Treasury Bills'.

Term Deposit
(or 'Time deposit') is a generic term for a bank deposit where funds cannot be withdrawn for a fixed period of time. The lender receives a fixed rate of interest. These are unsecured investments and place the lender at risk of bail-in should this occur during the term of the investment.

Time Deposit: see 'Term Deposit'

Treasury Bills
Treasury bills are a AAA/AA+ rated, short-dated form of Government debt, issued by the Debt Management Office (q.v.), via a weekly tender, on a Friday. Lenders would use the services of a specialist broker to access the market. These usually have a maturity of one, three or six months and provide a return to the investor by virtue of being issued at a discount to their final redemption value. There is also an active secondary market for T-bills which means that lending may be available for a range of dates. Interest rates tend to be higher than the DMADF (q.v.).

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'.

Weighted Average Maturity
'Weighted average maturity', or WAM, is used to measure interest rate risk. WAM is calculated by taking the maturity of the underlying money market instruments held by the fund, weighted according to the relative holdings per instrument.