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CABINET

18 July 2017

ANNUAL REPORT ON TREASURY MANAGEMENT AND ACTUAL PRUDENTIAL INDICATORS 2016/17

Report of the Director for Resources

<table>
<tr><td>Strategic Aim:</td><td colspan="3">Sound Financial Planning</td></tr>
<tr><td colspan="2">Key Decision: Yes</td><td colspan="2">Forward Plan Reference: FP/160617/01</td></tr>
<tr><td colspan="2">Exempt Information</td><td colspan="2">No</td></tr>
<tr><td colspan="2">Cabinet Member(s) Responsible:</td><td colspan="2">Councillor Tony Mathias, Leader and Portfolio Holder for Corporate Finance</td></tr>
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DECISION RECOMMENDATIONS
That Cabinet: 1. Notes the actual 2016/17 prudential indicators within the report. 2. Notes the treasury management stewardship for 2016/17.

1 PURPOSE OF THE REPORT

1.1 Report 07/2016 set the Treasury Management Strategy for 2016/17 linked to the Council's Budget, Medium Term Financial Plan and Capital Plans. It is inextricably linked to delivering the Council's aims and objectives.

1.2 This report sets out how the Council has performed against the Strategy and whether the Council met key performance indicators.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's annual treasury report in Appendix A includes information on the performance of the treasury management service. The key points to note in year are:

- The Council has only invested with approved institutions;
- The Councils made a return on investment of 0.75% compared to the LIBOR rate of 0.49%;
- The Council undertook external borrowing of £420k,for a Salix interest free loan, in year and but did not breach the authorised limit for borrowing (£28m); and
- No external debt was repaid early as there was not a financial business case to do so.

3 CONSULTATION

3.1 No formal consultation is required.

4 ALTERNATIVE OPTIONS

4.1 This report is for noting, there are no alternative options.

5 FINANCIAL IMPLICATIONS

5.1 There are no financial implications arising from this report.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act DCLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

6.3 The Council's Treasury Management Strategy explains how it complies with this legal framework.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / review to an existing policy or service.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 The report summarises treasury management performance in the year and meets the requirements set out in 1.1.

11 BACKGROUND PAPERS

11.1 Statement of Accounts 2016/17

12 APPENDICES

12.1 Appendix A - Treasury Management Annual Report

12.2 Appendix B - Capita Commentary on 2016/17

12.3 Appendix C - Glossary

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.

Appendix A.

TREASURY MANAGEMENT ANNUAL REPORT 2016-17

1 OVERVIEW OF STRATEGY

1.1 What is Treasury Management?

1.1.1 Treasury management is the term used to describe the way a Council manages the cash it needs to meet both its day-to-day running costs and borrowing for capital expenditure. The treasury management function for a council will make the arrangements to borrow and invest money either over the short or the longer term in order to ensure that it has money available when it needs it.

1.1.2 CIPFA defines treasury management as“…the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

1.2 What framework or rules do we need to follow?

1.2.1 In making arrangements for treasury management, a council is required to follow CIPFA’s Treasury Management Code. The Code aims to help ensure that councils manage the significant risks associated with the function while also ensuring the council receives value for money.

1.2.2 The council approved a Strategy in January 2016 (report 07/2016) which covered;

- borrowing strategy, including capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time); and
- the treasury management strategy (strategy guidelines for choosing and placing investments, the principles to be used to determine the maximum periods for which funds can be committed, what specified and non specified investments will be considered how the investments and borrowings are to be organised) including treasury indicators.

1.2.3 Councils need to prove that they are complying with the Prudential Code and this is done through a series of prudential indicators that are set locally and approved at the same time as the council sets its budget for the following year.

2 TREASURY PERFORMANCE

2.1 How much did we have to invest during 2016/17?

2.1.1 The Council receives lots of income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

2.1.2 At any point of time in the year, the Council had between £24m - £34m available to invest. The table below shows the level of investments held during the year, the average level of investments during the year was £30.24m

2015/16 Actual £000	2016/17 Quarter 1 as at 30-Jun-16 £000	2016/17 Quarter 2 as at 30-Sep-16 £000	2016/17 Quarter 3 as at 31-Dec-16 £000	2016/17 Quarter 4 as at 31-Mar-17 £000
26.165	27.152	28.880	30.473	26.709

2.2 Did we achieve our investment objectives? Did we invest in line within approved rules?

2.2.1 Like us as individuals, the Council will invest surplus money in various ways to get a return on balances thus generating extra income. As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

2.2.2 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- Maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

2.2.3 All of the Councils investments during the financial were done in accordance with the Counterparty risk management indicators contained within the Treasury Management Strategy 2016/17 (07/2016).

2.2.4 Following the principles set out in paragraph 2.2.1, the Council made investment returns of £229k. In addition, £25k was received from the sale of buses, the delayed sale of Barleythorpe Hall, and from a Housing Association for a loan made to it. In total £254k has been received for interest against the budgeted position of £220k.

2.2.5 **How did the Council investments perform?**

2.2.6 The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. An example of a performance indicator often used for the investment treasury function is internal returns above the 6 month LIBOR rate (the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another). The Council monitored performance against the LIBOR rate during 2016/17 and the results are shown below.

	2015/16	**2016/17 (Q2)**	**2016/17 (Q4)**
RCC Returns (%)	0.71	0.82	0.75
LIBOR (%)	0.59	0.56	0.49

2.2.7 During 2016/17 the Council has consistently outperformed the LIBOR rate and this reflects the decision made in the 2016/17 Treasury Management Strategy to increase the higher maximum levels of investments within the middle limit category for UK banks from £2m to £5m.

2.2.8 The reduction of the Bank Rate on 4 August 2016 from 0.50% to 0.25% has resulted in a reduction in interest rates for investments. The majority of the investments, however, were made before this reduction and £10m of the portfolio was invested at 1.05% for 364 days in the first quarter of 2016/17. The effect of the reduction in interest rates will be more noticeable in 2017/18, when the interest received will reduce. The Medium Term Financial Plan was adjusted for this in the Quarter 1 Finance Management Report (133/2016).

3 PRUDENTIAL (BORROWING AND DEBT) INDICATORS

3.1 Why do we borrow?

3.1.1 Council's borrow to fund capital expenditure or refinance/reschedule existing borrowings e.g. replace one loan with one at a lower rate.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options.

3.2 What was our Capital Expenditure and how did we fund it?

3.2.1 The Council's capital expenditure during 2016/17 was £5.3m. The outturn report (111/2017) contains detailed analysis of the capital programme and financing.

3.2.2 The £5.3m was financed as per the table below. The financing need represents an increase in borrowing requirements.

	2015/16 Actual*	**2016/17 Revised Estimate****	**2016/17 Actual*****
	£000	**£000**	**£000**
Capital Expenditure	**5,175**	**8,292**	**5,338**
Financed by:			
Capital Receipts/s106	0	806	274
Capital Grants & Contributions	4,682	5,770	3,950
Revenue	244	186	186
Net financing need for the year	**249**	**1,530**	**928**

* Audited Statement of Accounts 2015/16
** Revised Estimate per Mid-Year Treasury Report (197/2016)
*** Note 20 - Statement of Accounts 2016/17 (unaudited) and outturn report (111/2017). As part of the final accounts process, a minor change was made with additional capital receipts of £17k used to finance expenditure instead of grant.

3.2.3 The £928k net financing above was used to fund expenditure in relation to Digital Rutland (£508k) and the street lighting upgrades which are being part funded from a Salix loan (£420k) agreed in Report 01/2016.

3.3 What was the Council's borrowing need (the Capital Financing Requirement)?

3.3.1 Any unsupported borrowing in a given year is added to the Council's Capital Financing Requirement. For 2016/17 this would be the £928k explained in paragraph 3.2.3.

3.3.2 The Council's Capital Financing Requirement (CFR) is simply the total capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The CFR is reduced every year as the Council incurs a 'borrowing charge' in the Revenue Account which reduces it (this is called Minimum Revenue Provision).

3.3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator.

	2015/16 Actual* £000	**2016/17 Revised Estimate** £000**	**2016/17 Actual*** £000**
CFR – 1 April	**23,936**	**22,724**	**22,724**
Movement in Year - CFR	(1,212)	633	32
CFR – 31 March	**22,724**	**23,357**	**22,756**
Movement in CFR Represented by			
Net financing need for the year (from table at para 3.2.2)	249	1,530	928
MRP	(864)	(897)	(896)
Voluntary Revenue Provision (VRP)	(597)	-	-
Movement in CFR	**(1212)**	**633**	**32**

* Audited Statement of Accounts 2015/16
** Revised Estimate per Mid-Year Treasury Report (197/2016)
*** Note 20 - Statement of Accounts 2016/17 (unaudited) and outturn report (111/2017)

3.4 What is the current level of debt and how might it change?

3.4.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). The remainder comprises a Salix Loan of £420k repayable in 2020 and a Local Enterprise Partnership loan (LEP) of £630,000 which matures in 2023. The Salix and LEP loans are shown in the accounts at concessionary rates which increases year on year until the final year where the full value is recognised. Details of the outstanding loans can be found in the table in paragraph 3.4.5.

3.4.2 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being repaid on the maturity date.

3.4.3 The overall debt position is monitored continuously and advice provided by Capita Asset Services to identify opportunities for the repayment or restructuring of debt. No such opportunities were identified as cost effective in the year. Repayment of debt is subject to either a premium or dividend equating to the difference in interest payable for the remainder of the term of the loan and that which could be earned by the lender on a new loan for the same period. The debt position at the 31 March 2017 compared to the previous year is shown in the following table:

	31 March 2016		31 March 2017	
	Principal	**Average Rate**	**Principal**	**Average rate**
Long Term Debt Public Works Loan Board (all fixed rate debt)	£21.386m	4.83%	£21.386m	4.83%
Local Enterprise Partnership (LEP)	£0.548m	0.00%	£0.560m*	0.00%
Salix Loan	-	-	£0.399m*	0.00%
Total long term debt (all fixed rate debt)	£21.934m		£22.345m	
Capital Financing Requirement	£22.724m		£22.756m	
Over/(under) borrowing	(£0.790m)		(£0.411m)	
Total investments	(£24.594m)	0.71%	(£26.709m)	0.75%
Net borrowing position	**(£2.660m)**		**(£4.364m)**	
* The Council has not increased its LEP loan but the actual loan (£630k over 10 years) is shown in the accounts at a concessionary rate which increases year on year until the final year where the full value is recognised. The Salix (£420 over 5 Years) is also shown in the accounts at a concessionary rate until the final year where the full value is recognised.				

3.5 What borrowing limits did we set and how did we comply?

3.5.1 The Council cannot simply borrow indefinitely. There are a number of

prudential indicators to ensure the Council operates its activities within well-defined limits. The indicators focus on two key aspects:

- Setting limits to control borrowing; and
- Assessing the affordability of the capital investment plans.

3.5.2 In addition, we also set limits on interest rate exposure.

3.5.3 **Controlling borrowing prudential indicators**

3.5.4 The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This indicator is important as it effectively measures whether your actual external debt exceeds your need to borrow. If it does, then it could suggest that Councils have been borrowing when they do not need to do so or for inappropriate purposes. If could also mean that the Council has made a reduction to its CFR by undertaking VRP. This is the case for the Council, with additional VRP's being made in 2013/14 for £1.414m and 2015/16 £0.597m.

3.5.5 The table below shows that the Council has complied with this indicator for 2016/17, in the future this may change, but as a result of the Council reducing its CFR rather than taking out new debt.

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Gross Debt	22,436	22,436	22,436	22,436
Capital Financing Requirement (CFR)	22,756	21,858	21,244	20,630
Under / (Over) borrowing	320	(578)	(1,192)	(1,806)

3.5.6 In future, the Council may be in an "overborrowed" position, which can be explained as follows:

3.5.7 The position has not materialised from borrowing for revenue purposes, which this indicator is a key test off. Since 2008 when the Council borrowed £4m PWLB for the bye-pass, the Council has taken only two loans i) an interest free loan from the Local Enterprise Partnership to contribute to the purchase and renovation of Oakham Enterprise Park (£630k); and ii) a Salix loan at 0% for Street Lighting upgrades (£420k). This borrowing is for capital purposes and not to fund revenue.

3.5.8 The Council has also made voluntary contributions to reduce its CFR as a means of reducing the capital financing charge on the revenue account. In

2013/14 the application of unused Capital Receipts was used to reduce the CFR by £1.4m and in 2015/16 to repay the advance borrowing in relation to Adult Soccer a reduction of £597k. If the Council had not done this, the CFR would £2m higher and the revenue account would receive a higher capital financing charge.

3.5.9 Ideally, to reduce interest costs, the Council would have preferred to use capital receipts etc to repay external debt. However, there has not been a viable business case to do so. The Council would have to pay a premium to repay early, which would cost the Council in the long term more than repaying in line with the current loan on maturity.

3.5.10 A further key prudential indicator represents a control on the maximum level of borrowing. The Council approved the Authorised Limit of £28m. This represents a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term

3.5.11 The table in paragraph 3.4.5 shows that Council did not breach this limit for 2016/17.

3.5.12 An additional Indicator is the Operational Boundary – this is the maximum amount of money a council expects to borrow during the year. This is lower than the authorised limit and acts as a useful warning sign if it is breached during the year, which could mean that underlying spending may be higher or income lower than budgeted. The council approved an operational boundary of £26m within the 2016/17 Treasury Strategy. The table in paragraph 3.4.5 shows that Council did not breach this limit for 2016/17.

3.5.13 **Affordability Prudential Indicators**

3.5.14 The previous section covered the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.5.15 One of the key affordability indicators is the ratio of financing costs to net revenue stream. This indicator helps a council identify if borrowing costs become too high as a proportion of its budget. This is important as borrowing costs always have to be paid and are very hard to cut if resources fall.

	Budgeted **£000**	**Actual** **£000**	
Capital Financing Costs	1,931	1,930	
Interest Receivable	(0,213)	(0,254)	

	1,718	1,676	A
Revenue Stream			
Government Grants	6,017	7,326	
Retained Business Rates	4,399	5,026	
Council Tax	21,926	21,926	
	32,342	34,278	B
Ratio (A divided by B as a percentage)	5.31%	4.89%	

3.5.16 The table above shows that the Council complied with this indicator. The net financing costs (A) were lower than budgeted, due to the additional interest earned on investments and the Revenue Stream (B) being higher due to additional grants received.

Appendix B. Capita Asset Services Commentary on The Economy and Interest Rates

1. The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

2. In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest CPI inflation figure had risen to 2.3%, above the MPC's inflation target of 2%. However, the MPC's view was that it would look through near term supply side driven inflation, (i.e. not raise Bank Rate), caused by sterling's devaluation, despite forecasting that inflation would reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend. Market expectations for the first increase in Bank Rate moved forward to quarter 3 2018 by the end of March 2017 in response to increasing concerns around inflation.

3. **USA.** Quarterly growth in the US has been very volatile during 2016 but a strong performance since mid-2016, and strongly rising inflation, prompted the Fed into raising rates in December 2016 and March 2017. The US is the first major western country to start on a progressive upswing in rates. Overall growth in 2016 was 1.6%.

4. **EU.** The EU is furthest away from an upswing in rates; the European Central Bank (ECB) has cut rates into negative territory, provided huge tranches of cheap financing and been doing major quantitative easing purchases of debt during 2016-17 in order to boost growth from consistently weak levels, and to get inflation up from near zero towards its target of 2%. These purchases have resulted in depressed bond yields in the EU, but, towards the end of 2016, yields rose, probably due at least in part to rising political concerns around the positive prospects for populist parties and impending general elections in 2017 in the Netherlands, France and Germany. The action taken

by the ECB has resulted in economic growth improving significantly in the Eurozone to an overall figure of 1.7% for 2016, with Germany achieving a rate of 1.9% as the fastest growing G7 country.

5. On the other hand, President Trump's election and promise of fiscal stimulus, which are likely to increase growth and inflationary pressures in the US, have resulted in Treasury yields rising sharply since his election. Gilt yields in the UK have been caught between these two influences and the result is that the gap in yield between US treasuries and UK gilts has widened sharply during 2016/17 due to market perceptions that the UK is still likely to be two years behind the US in starting on an upswing in rates despite a track record of four years of strong growth.

6. **Japan** struggled to stimulate consistent significant growth with GDP averaging only 1.0% in 2016 with current indications pointing to a similar figure for 2017. It is also struggling to get inflation up to its target of 2%, only achieving an average of -0.1% in 2016, despite huge monetary and fiscal stimulus, though this is currently expected to increase to around 1% in 2017. It is also making little progress on fundamental reform of the economy.

7. **China and emerging market counties.** At the start of 2016, there were considerable fears that China's economic growth could be heading towards a hard landing, which could then destabilise some emerging market countries particularly exposed to a Chinese economic slowdown and / or to the effects of a major reduction in revenue from low oil prices. These fears have largely subsided and oil prices have partially recovered so, overall, world growth prospects have improved during the year.

8. **Equity markets.** The result of the referendum, and the consequent devaluation of sterling, boosted the shares of many FTSE 100 companies which had major earnings which were not denominated in sterling. The overall trend since then has been steeply upwards and received further momentum after Donald Trump was elected President as he had promised a major fiscal stimulus to boost the US economy and growth rate.

Appendix C. Treasury Management Glossary of Terms

Authorised Limit (Also known as the Affordable Limit):

A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).

Balances and Reserves:

Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.

Bank Rate:

The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.

Basis Point:

A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.

Bond:

A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.

Capital Expenditure:

Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR):

The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.

Capital Receipts:

Money obtained on the sale of a capital asset.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF. All deposits are guaranteed by HM Government and therefore have the

equivalent of a sovereign triple-A credit rating.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

Maturity:

The date when an investment or borrowing is repaid.

Money Market Funds (MMF):

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Voluntary Revenue Provision (VRP):

An additional contribution over and above the MRP that the Council can choose to make to reduce the CFR which in turn will reduce the MRP for future years.

Non Specified Investment:

Investments which fall outside the CLG Guidance for Specified investments (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:
Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.