APPENDIX 1

Lewes District Council

Mid-year Treasury Management Report 2012/2013

Contents

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) recommends that full Council should receive every year reports on Treasury Management policies and activity before the start of the year, mid-year and after the end of the year. The intention is that those with ultimate responsibility for the Treasury Management function appreciate fully the implications of Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.2 The Council defines its Treasury Management activities as:

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

1.3 This mid-year report covers the period 1 April 2012 to 30 September 2012.

2. Overall Summary of Activity

2.1 At its meeting in February 2012, the Council agreed its Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15. The table below lists the key elements of that Strategy and records actual performance in the first six months of the year against each one of them.

Key Element	Required by Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£69.962 million	£73.138 million (projection 31 March)	-
Internal borrowing at year end	£12.273 million	£16.465 million (projection 31 March)	-
New external long-term borrowing in year	None anticipated	None undertaken (projection 31 March)	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken to date	✓
Interest payments on external borrowing	£2.021m	£0.861m (to date)	✓
Investments			
Minimum counterparty credit ratings for investments of up to 1 year	Long-term A/ Short-term F1 (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A/ Short-term F1 where required	✓
Sovereign status of counterparties	UK plus 10 specified nations	Only UK counterparties used	✓
Money Market Funds	AAA rated with Constant Net Asset Value	AAA rated with Constant Net Asset Value	✓

Key Element	Required by Strategy	Actual Performance	
Overnight exposure guideline for deposits with Cooperative	Maximum £1 million	Guideline exceeded on 1 occasion	-
Interest receipts from external investments	£0.053m	£0.036m (to date)	✓
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Procurement exercise to be undertaken for new long-term contract	Arlingclose reappointed following procurement exercise	✓
Reporting and Training			
Reports to be made to Audit Committee and Cabinet	Every meeting	Every meeting	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Arlingclose scheduled for October 2012	✓

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2012/2013 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report analyses each of the key elements in more depth. Appendix A, supplied by Arlingclose explores the economic background to the year's activity and Appendix B lists all term deposits made in the first half of the year. Appendix C sets out the Authorised Counterparty list at 30 September 2012. A Glossary appears at the end of the document to explain the technical terms which could not be avoided when writing this report.

3. Detailed Analysis - Borrowing

3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow in respect of capital expenditure (eg the purchase of land, property, vehicles or equipment which will last for more than one year, or the improvement of such assets).

3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). This, together with balances and reserves, are the core drivers of Treasury Management activity.

3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. External borrowing is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to use the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other borrowers as a means to avoid taking on external loans. This is known as internal borrowing.

3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2012/2013, along with an updated analysis, is shown in the table below. The increases in capital expenditure and financing shown reflect the approved capital programme as at October 2012, and assume that all projects are completed in the year. That outcome is unlikely, however - the capital programme represents an allocation of funds to specific long-term projects many of which span financial years.

3.5 As at 30 September 2012, capital expenditure with a total value of £3.4m had been incurred (excluding commitments). Of this, £1.1m was in respect of the purchase of a block of flats for housing use, 'The Crest', the cost of which is to be met by internal borrowing in the short term. All other capital expenditure has been funded from grants, capital receipts, reserves or revenue income. The projected increase in the closing CFR reflects the purchase of The Crest and expenditure on the Agile Working element of Programme Nexus. It is expected that the proceeds from the disposal of assets in future years will be used as retrospective funding for these initiatives, and reduce the CFR in 2013/2014.

	2012/13 Original £m	2012/13 Projected £m
Opening CFR	70.612	70.221
Capital expenditure in year (projected)	6.993	14.765
Less financed	(6.993)	(11.198)
Less amount set aside for debt repayment	(0.650)	(0.650)
Closing CFR	69.962	73.138
NB the CFR calculation above excludes the impact of technical accounting entries in respect of leases as required by International Financial Reporting Standards		

3.6 The following table compares the CFR with the Council's actual long-term borrowing. The difference between the two amounts represents the 'internal borrowing' of balances and reserves. For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding. This approach has lowered overall treasury risk by reducing both external debt and temporary investments. The Treasury Strategy for the year was agreed in February 2012 before the final outcome of the national housing finance reform initiative was known. In the event, new external borrowing taken on by the Council in response to the initiative was less than originally planned, and this is illustrated below.

	31/3/13 Original £m	31/3/13 Projected £m
(a) Capital Financing Requirement	69.962	73.138
(b) Actual external borrowing	(57.689)	(56.673)
(c) Use of Balances and Reserves as alternative to borrowing (a)–(b)	12.273	16.465

3.7 Total interest paid on long-term borrowing in the period to 30 September 2012 was £0.861 million, representing the first of two instalments of interest due on the Council's loans from the PWLB and a £5 million market Lender's Options Borrower's Option (LOBO) loan at the rate of 4.5% with a term of 50 years. Under the terms of the LOBO, the Lender reviewed the rate/terms of the loan in April 2012 but kept them unchanged. As a result the Council did not have an option to repay. The Lender will next review the terms in April 2015.

3.8 The Government has confirmed that the Council will be eligible, from 1 November 2012 for a 20 basis points (bps) discount on loans from the PWLB under the prudential borrowing regime. Principal local authorities which provided improved information and transparency on their locally determined long-term borrowing and associated capital spending plans will be able to access this ‘PWLB certainty rate’, which will apply across all loan types and maturities.

4. Detailed Analysis - Investments

4.1 The Council held on average £13.7 million available for investment in the period to 30 September 2012. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council’s general policy objective is to invest its surplus funds prudently. The Council’s investment priorities have continued to be:

highest priority - security of the invested capital;
followed by - liquidity of the invested capital;
finally - an optimum yield commensurate with security and liquidity.

4.3 All of the Council’s investments have been managed in-house. Security of capital has been maintained by following the counterparty policy set out in the Investment Strategy for 2012/2013. Investments during the period included:

- Deposits with the Debt Management Office (total £42.10 million)
- Deposits with other Local Authorities (total £35.80 million)
- Investments in AAA-rated Constant Net Asset Value Money Market Funds (MMFs) (average balance held in year £1.54 million)
- Deposit accounts with UK Banks/Building Societies (average balance held in year £3.00 million)
- Overnight deposits with the Council’s banker, Cooperative Bank (average balance held in year £0.29 million)

4.4 The Council has approved the use of two MMFs, DB Advisors – Deutsche Global Liquidity Series and Goldman Sachs Asset Management International.

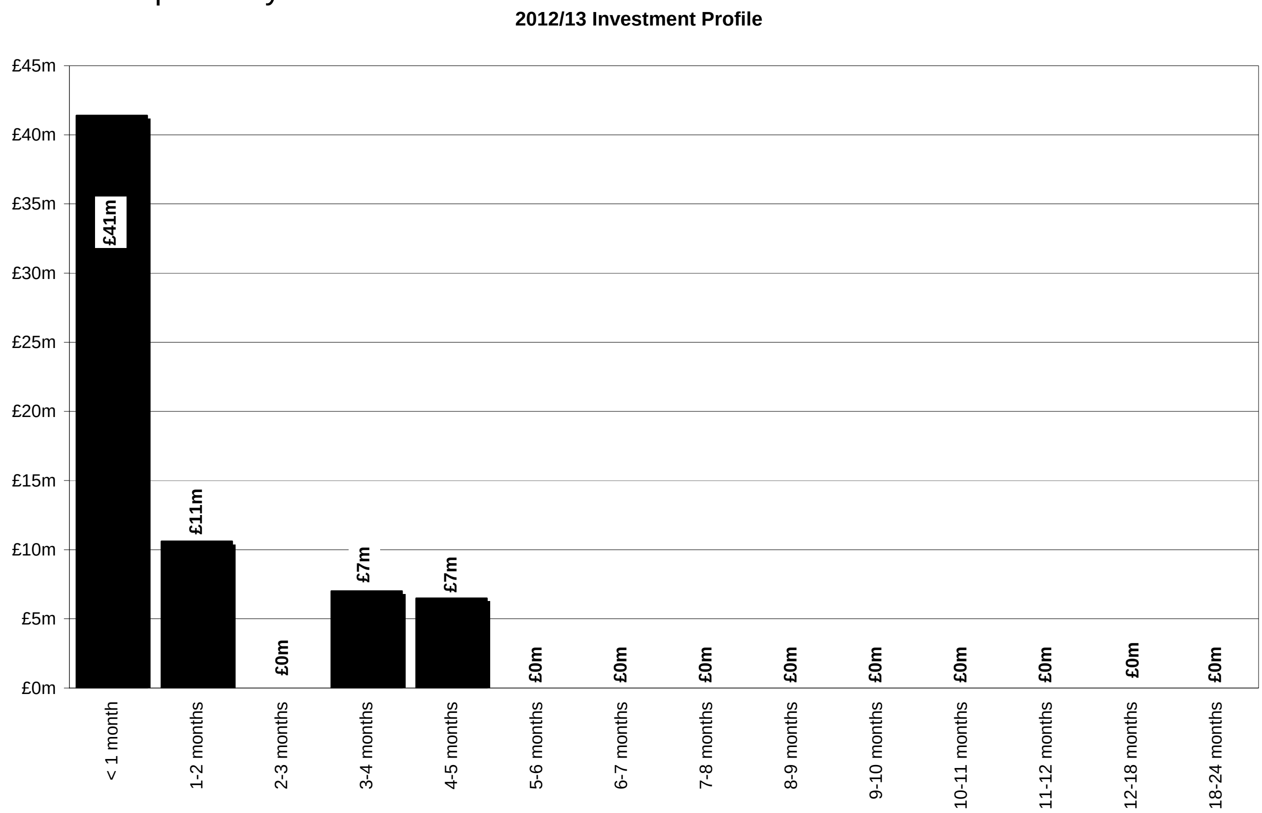
4.5 The guideline for use of the Cooperative Bank for overnight deposits is an overnight exposure limit of £1 million. As reported to the Audit Committee, this guideline was exceeded overnight on 4 September 2012 for reasons outside the Council’s control.

4.6 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody’s applied); credit default swaps; GDP of the country in which the institution operates; the country’s net debt as a percentage of GDP; any potential support mechanisms and share price.

4.7 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts.

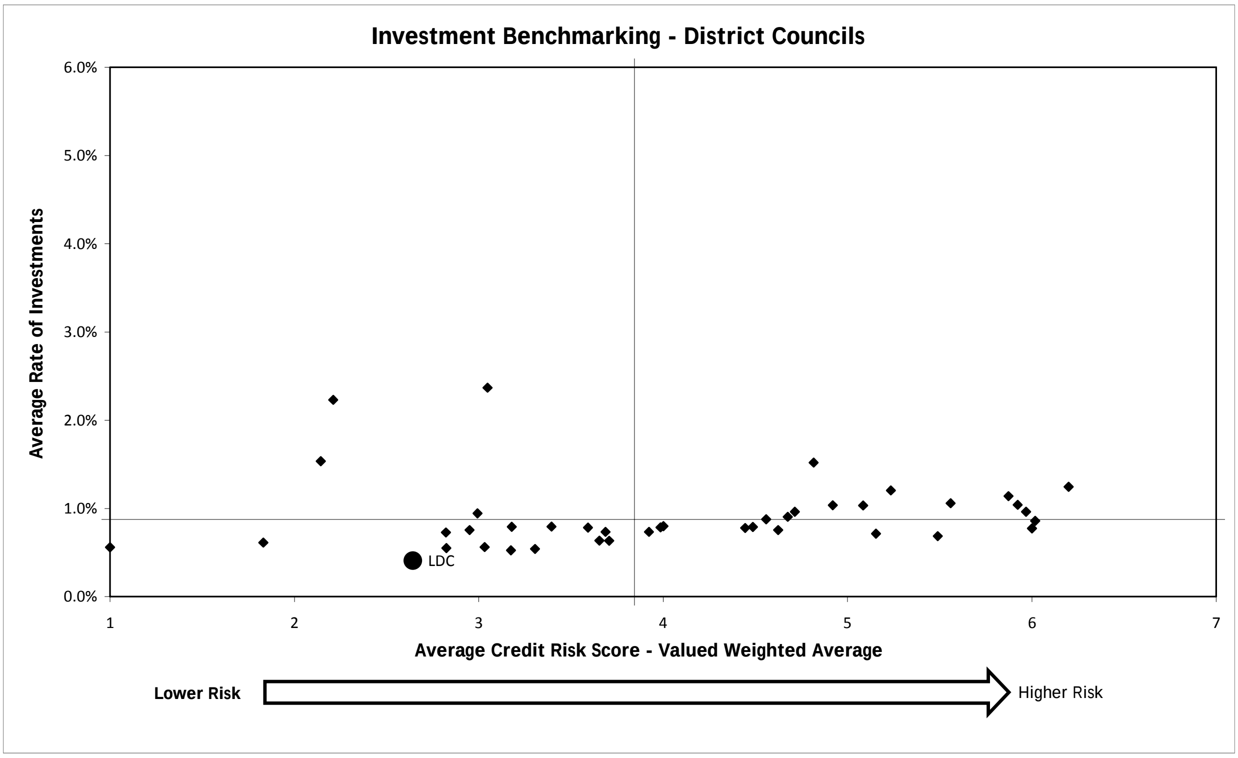
4.8 The Council sought to optimise returns commensurate with its objectives of security and liquidity. As expected when setting the investment income budget for 2012/2013, the UK Bank Rate has been maintained at 0.5%.

4.9 A full list of temporary investments made in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of fixed term deposits by duration.



4.10 Interest generated from external deposits in the year to date was £0.056 million and the total budget for investment income in 2012/2013, £0.090 million, is expected to be achieved based on returns to date and interested to be accounted for in respect of the Council's deposit with Landsbanki Island hf.

4.11 The following chart illustrates the results of investment benchmarking carried out by Arlingclose as at 30 September 2012. It measures the average credit risk associated with the institutions with which the Council has invested in the period against the average rate of return achieved. As can be seen, the Council's average investment return (0.41%) has been lower than other district council clients of Arlingclose, but this is the consequence of our focus on low credit risk. Other districts have gained marginally higher returns but with greater risk.



5. Counterparty Update

In June, Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three steps. As a result, the UK banks Royal Bank of Scotland and NatWest Bank were suspended from the Council's authorised lending list, along with a number of non-UK banks, and have not been restored. Santander UK were suspended from the authorised list for a short time but were later restored. At the end of the period, the authorised lending list was as shown in Appendix C.

6. Safe Custody Arrangement

6.1 An increasing theme in Arlingclose's investment advice is directed towards diversification in investment instruments as well as investment counterparties. The credit outlook for banks remains fragile and the level of external scrutiny by international authorities – reflecting the international activities of mainstream banks – is heightened and demonstrably active.

6.2 Many of Arlingclose's clients now utilise Treasury Bills and CDs as part of their normal treasury management activities. The Council has approved the use of both of these Investment Instruments in its 2012/2013 Treasury and Investment Strategy. However, the use of these instruments requires a Custodian facility in order to enable transactions in these instruments to be executed and the instruments held.

6.3 Arlingclose have recommended that the Council should open a Custodian Facility and has provided advice on alternative options. As a result, officers opened a facility with 'King and Shaxson' in early September, but no use of it has yet been made.

7. Icelandic Bank Deposit

7.1 The Council had a deposit of £1m outstanding with the Icelandic bank Landsbanki Island hf when it failed in October 2008. After successful legal action taken jointly with other local authorities which had deposits with the bank, the Council now expects to recover the full amount, although the timing remains uncertain. In May 2012, the Council received a second distribution from the bank's Winding-up Board.

7.2 The value of the amounts recovered to date have been as follows:

	£'000
December 2011	312
May 2012	128
Sub-total	**440**
After reporting period - October 2012	60
Total	**500**

8. Internal Borrowing

8.1 Following the national reform of housing finance, since 1 April 2012 the Council has adopted a 'two pool' approach to the accounting treatment of loans. Under this approach, interest on any external borrowing in respect of expenditure on General Fund services is to be charged to the General Fund, and interest on any external borrowing in respect of the Council's housing stock (Housing Revenue Account (HRA)) is to be charged to the HRA. At the start of the year, all external borrowing was attributed to the HRA.

8.2 Where the HRA or General Fund has surplus cash balances which allow either account to have external borrowing below its level of CFR (internal borrowing), the approved Treasury Strategy explains that the rate charged on this internal borrowing will be based on the rate of interest applicable to a one-year maturity loan from the PWLB at the start of the financial year.

8.3 It is expected that an interest payment will be made from the HRA to the General Fund in 2012/2103, but the final amount will not be determined until the close of the year. In August 2012, the Council completed the £1.1m purchase of The Crest for HRA use, and no new additional external borrowing has been put in place, the transaction being covered by a reduction in cash available for investment. This constitutes internal borrowing by the HRA from the General Fund and an interest charge will be made as outlined above.

9. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2012/2013, which were set in February 2012 as part of the Council's Treasury Management Strategy Statement. Actual borrowing has remained within the Authorised Limit for External Debt (£72.5m) and the Operational Boundary for External Debt (£67.0m).

10. Reporting and Training

10.1 The Director of Finance has reported the details of treasury management activity to each meeting of the Audit Committee and Cabinet held to date in 2012/2013.

10.2 All councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, were offered the opportunity to attend a local briefing session to led by Arlingclose on 15 October 2012.

10.3 The training needs of the Council's treasury management staff continue to be reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Staff continue to attend Arlingclose workshops, when appropriate to their needs, alongside colleagues from other local authorities during 2012/2013.

11. Investment Advisors

Following a procurement exercise, Cabinet approved the reappointment of Arlingclose as the Council's treasury advisor for four years starting from 1 September 2012.

Appendix A – Economic Background explained by Arlingclose

Growth: The world economy faced yet another soft patch. The UK and the Eurozone (with the exception of Germany) struggled to show discernible growth whilst the US economy grew slowly. UK GDP contracted by 0.3% in the first calendar quarter of 2012 and by 0.4% in second, reflecting the difficult economic conditions faced by businesses and consumers domestically and globally. Businesses were more inclined to take defensive strategies involving cost cutting rather than increasing capital spending. Financial conditions facing households continued to be weak as wage growth remained subdued and was, for much of the period, outstripped by inflation. (Much of the fall in Q2 GDP could probably be attributed to the impact of the additional bank holiday for the Diamond Jubilee, and could be recovered in Q3.)

Inflation: Inflation, which had remained stubbornly sticky throughout 2011, slowly began to fall. Annual CPI dipped below 3% for the first time in two and half years in May and fell to the lowest level since November 2009 in June, with a reading of 2.4%. It ticked up marginally to 2.5% by August. Although the recent rise in commodity prices has been worrying, the rise in oil and food prices – the latter mainly due to poor weather-related yields - are well below the spikes of 2010-11.

Some barometers of economic activity, however, provided a more buoyant and positive picture but tended to get overshadowed. Employment rose by 236,000 in the three months to July and the employment rate was at its highest since the three months to April 2009. The ILO unemployment rate fell 0.1% on the quarter to 8.1%. Whilst the effect of the Olympics undoubtedly played a part, despite its temporary nature, the underlying data pointed to a more resilient and optimistic outlook for the economy.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to sanction £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut from the current level of 0.5% was discussed at the Bank's Monetary Policy Committee meetings in June and July; however reference to it was subsequently dropped suggesting that this policy option had left the table for the immediate future. The government's Funding for Lending (FLS) initiative, intended to lower banks' funding costs, commenced in August. The Bank of England will assess its effects in easing the flow of credit before committing to further policy action.

Banks were embroiled in the scandal to manipulate LIBOR rates during the abnormal market conditions at the height of the 2007/2008 financial crisis. Barclays was fined a record £290 million, the FSA was also investigating HSBC, RBS, Citicorp and UBS; Lloyds was named in a lawsuit in the US. The big-four UK banks were also being investigated for mis-selling interest rate swaps to small businesses.

The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. Poor employment data for August preceded the Fed further easing monetary policy at its September meeting; The Fed committed to purchasing $40 billion of agency mortgage-backed securities each month until the outlook for the labour market improves "substantially." The Fed also pledged to keep interest rates low until mid-2015. In Greece, the formation of an alliance of pro-euro parties after a second round of parliamentary elections prevented an immediate and disorderly exit from the Euro. The Euro region suffered a renewed bout of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. The European Central Bank responded with the announcement in September of its Outright Monetary Transactions (OMT) facility which allows the ECB to buy unlimited amounts of 1-3 year sovereign bonds provided the sovereign(s) first asks for such assistance and adheres to the strict conditionality attached to such purchases.

Gilt Yields and Money Market Rates: Gilt yields fell sharply raising the prospect that very short-dated yields could turn negative. 2-year yields fell to 0.06%, 5-year yields to 0.48% and 10-year yields to 1.45%. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; investors preferring the safer haven of UK government bonds to those of European sovereigns; the coalition's commitment to fiscal discipline by sticking to its "plan A" for deficit reduction; large scale purchases by banks to comply with the FSA's liquidity buffer requirements; and general risk aversion against a weak economic backdrop. PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

Money market rates fell over the six month period by between 0.2% to 0.6% for 1-12 month maturities.

Appendix B – Term deposits made and/or maturing April to September '12

Deal	Counterparty	Value	From	To	Rate
204111	Hinkley & Bosworth Borough Council	2,600,000	23 Mar 12	2 Apr 12	0.5000%
204211	West Yorkshire Fire & Rescue Service	1,000,000	30 Mar 12	16 Apr 12	0.3500%
204311	Debt Management Office	600,000	30 Mar 12	12 Apr 12	0.2500%
204412	Thurrock Borough Council	2,000,000	16 Apr 12	22 May 12	0.3000%
204512	Plymouth City Council	2,000,000	25 Apr 12	25 May 12	0.2800%
204612	Birmingham City Council	2,000,000	1 May 12	1 Jun 12	0.3000%
204712	Birmingham City Council	1,000,000	2 May 12	6 Jun 12	0.3000%
204812	Debt Management Office	1,000,000	15 May 12	21 May 12	0.2500%
204912	Debt Management Office	3,500,000	15 May 12	22 May 12	0.2500%
205012	West Yorkshire Fire & Rescue Service	3,600,000	28 May 12	13 Jul 12	0.3200%
205112	Debt Management Office	2,000,000	1 Jun 12	6 Jun 12	0.2500%
205212	Debt Management Office	2,500,000	1 Jun 12	8 Jun 12	0.2500%
205312	Debt Management Office	2,500,000	1 Jun 12	12 Jun 12	0.2500%
205412	Birmingham City Council	3,000,000	6 Jun 12	6 Sep 12	0.3500%
205512	Debt Management Office	2,500,000	8 Jun 12	4 Jul 12	0.2500%
205612	Debt Management Office	1,000,000	8 Jun 12	18 Jun 12	0.2500%
205712	Thurrock Borough Council	2,000,000	4 Jul 12	4 Oct 12	0.2900%
205812	Thurrock Borough Council	1,000,000	11 Jul 12	11 Oct 12	0.2900%
205912	Dundee City Council	2,500,000	12 Jun 12	19 Oct 12	0.3000%
206012	Debt Management Office	1,000,000	15 Jun 12	19 Jun 12	0.2500%
206112	Debt Management Office	2,500,000	15 Jun 12	25 Jun 12	0.2500%
206212	Debt Management Office	1,000,000	25 Jun 12	2 Jul 12	0.2500%
206312	Debt Management Office	1,000,000	25 Jun 12	11 Jul 12	0.2500%
206412	Birmingham City Council	2,000,000	16 Jul 12	22 Nov 12	0.3000%
206512	Debt Management Office	1,000,000	2 Jul 12	3 Jul 12	0.2500%
206612	Debt Management Office	500,000	5 Jul 12	19 Jul 12	0.2500%
206712	Thurrock Borough Council	2,000,000	7 Aug 12	7 Dec 12	0.3050%
206812	West Yorkshire Fire & Rescue Service	3,600,000	13 Jul 12	16 Jul 12	0.3200%
206912	Debt Management Office	1,000,000	16 Jul 12	19 Jul 12	0.2500%
207012	Debt Management Office	1,000,000	16 Jul 12	25 Jul 12	0.2500%
207112	Debt Management Office	2,000,000	16 Jul 12	9 Aug 12	0.2500%
207212	Debt Management Office	1,000,000	19 Jul 12	9 Aug 12	0.2500%
207312	Debt Management Office	1,100,000	1 Aug 12	13 Aug 12	0.2500%
207412	Nationwide Building Society	1,000,000	1 Aug 12	1 Nov 12	0.5800%
207512	Debt Management Office	1,500,000	3 Sep 12	4 Sep 12	0.2499%
207612	Debt Management Office	1,500,000	6 Sep 12	7 Sep 12	0.2499%
207712	Debt Management Office	1,300,000	6 Sep 12	10 Sep 12	0.2500%
207812	Debt Management Office	1,200,000	6 Sep 12	12 Sep 12	0.2500%

Appendix C – Authorised Lending List at 1 October 2012

Last updated	Institution - PARENT COMPANY ONLY Subsidiaries are NOT Authorised Counterparties	Country	Lowest Equivalent Short Term Rating **	MaximumTerm
24-Sep-12	Australia & New Zealand Banking Group Limited	AUS	F1+	12 months
24-Sep-12	Commonwealth Bank of Australia	AUS	F1+	12 months
24-Sep-12	National Australia Bank Limited **[part of NAB Group]**	AUS	F1+	12 months
24-Sep-12	Westpac Banking Corporation	AUS	F1+	12 months
24-Sep-12	Bank of Montreal	CAN	F1	12 months
24-Sep-12	Bank of Novia Scotia	CAN	F1+	12 months
24-Sep-12	Canadian Imperial Bank of Commerce	CAN	F1	12 months
24-Sep-12	Royal Bank of Canada	CAN	F1+	12 months
24-Sep-12	Toronto-Dominion Bank	CAN	F1+	12 months
24-Sep-12	Nordea Bank Finland plc	FIN	F1+	3 months
24-Sep-12	BNP Paribas	FRA	F1+	NOT IN USE
24-Sep-12	Calyon **[part of Credit Agricole Group]**	FRA	F1	NOT IN USE
24-Sep-12	Credit Agricole SA **[part of Credit Agricole Group]**	FRA	F1	NOT IN USE
24-Sep-12	Société Générale	FRA	F1	NOT IN USE
24-Sep-12	Deutsche Bank AG	GER	F1	3 months
24-Sep-12	Bank Nederlandse Gemeenten	NL	F1+	3 months
24-Sep-12	ING Bank NV	NL	F1	NOT IN USE
24-Sep-12	Rabobank	NL	F1+	3 months
24-Sep-12	Svenska Handelsbanken	SWE	F1	3 months
24-Sep-12	Credit Suisse	SWI	F1	NOT IN USE
24-Sep-12	Bank of Scotland Plc **[part of Lloyds Group]**	UK	F1	3 months
24-Sep-12	Barclays Bank plc	UK	F1	3 months
24-Sep-12	HSBC Bank plc	UK	F1+	12 months
24-Sep-12	Lloyds TSB Bank **[part of Lloyds Group]**	UK	F1	3 months
24-Sep-12	Nationwide Building Society	UK	F1	3 months
24-Sep-12	Santander UK plc **[part of Banco Santander]**	UK	F1	1 months
24-Sep-12	Standard Chartered Bank	UK	F1+	12 months
24-Sep-12	JP Morgan	US	F1	6 months

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which other rates are based.
Basis Point	A convenient way of measuring an interest rate (or its movement). It represents 1/100th of a percentage point, ie 100 basis points make up 1%, and 250 basis points are 2.5%. It is easier to talk about 30 basis points than "point three of one per cent".
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the UK accountancy bodies, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices are monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term

	outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. The three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Internal Borrowing	The temporary use of surplus cash which would otherwise be invested, as an alternative to borrowing from the PWLB or a bank in order to meet the cost of capital expenditure.
International Financial Reporting Standards (IFRS)	The set of accounting rules applicable to all local authorities from 1 April 2010.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every 5 years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.