| Report for: AUDIT COMMITTEE<br><br>FOR SCRUTINY/REVIEW |
|---|
| **Item Number:**<br><br>**7** |

| | | |
|---|---|---|
| **Contains Private and Confidential Information** | **YES** (appendix 2) | Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972 |
| **Title** | Treasury Management Q3 Update 2014/15 | |
| **Responsible Officer (s)** | Ian O'Donnell: Executive Director of Corporate Resources.<br>Maria G. Christofi : Director of Finance | |
| **Author(s)** | Bridget Uku, Group Manager, Treasury & Investments<br>Tel: 020 8825 5981. E-mail: ukub@ealing.gov.uk<br>Fiona Marsh, Treasury & Investment Accountant<br>Tel: 020 8825 8294, E-mail: marshf@ealing.gov.uk | |
| **Portfolio** | Finance, Performance and Welfare –<br>Cllr Yvonne Johnson | |
| **For Consideration By** | Audit Committee | |
| **Date to be Considered** | 17 March 2015 | |
| **Implementation Date if Not Called In** | N/A | |
| **Affected Wards** | N/A | |
| **Area Committees** | N/A | |
| **Keywords/Index** | Treasury, borrowing, lending, investments | |

**Purpose of Report:**
This report provides an update on the Council's borrowing and investment activities during 2014/15 for year to 31 December 2014. This update ensures that the Council is delivering its Treasury Management service in a compliant and transparent manner, fulfilling its obligations under the Local Government Act 2003 to provide regular reviews of its activities. The report is being submitted to the Audit Committee to enable members to fulfil their scrutiny role of the Treasury Management function as per CIPFA's Treasury Management Code of Practice.  Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits and prudential indicators set out in the Council's Treasury Management Strategy. The report also provides information on the economic conditions prevailing in the third quarter of 2014/15.

## 1. Recommendations

It is recommended that Members:

1.1 Note the Treasury Management activities and performance against targets for the nine months to 31 December 2014.

1.2 Note the Council's investment balance of £193.293m as at 31 December 2014 of which £59.80m was invested in other Local Authorities (set out in Appendix 1).

1.3 Note the Council's current lending list (set out in confidential Appendix 2)

## 2. Reason for Decision and Options Considered

2.1. This report updates on both the borrowing and investment decisions made by the Director of Finance under delegated authority in the context of prevailing economic conditions and considers Treasury Management performance measured against the benchmark 7 day LIBID rate.

2.2. Treasury management is defined 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".

<u>Summary</u>

2.3. The main points from this report are:

- All treasury management activities were executed by authorised officers within the remit agreed by the Council.

- All investments were made to counterparties within the Council's approved lending list.

- The Council's remaining investment with the Icelandic bank Glitnir, was still held in an escrow account in Iceland at the end of the quarter. However, post quarter end officers participated in an Icelandic Central Bank currency auction to gain access and allow repatriation of the funds. The sum of was returned to the Council on 13th February 2015.

- There has been no long-term borrowing raised so far this financial year, 2014/15.

- The Council earned a return of 0.580% on its lending, outperforming the actual rolling average 7 Day Libid rate of 0.355%.

- The HRA debt is being managed separately from General Fund debt.

2.4. A glossary of terms is set out at the end of this report, to make this technical report as user friendly as possible.

## 3. Treasury Management Strategy 2014/15

3.1. The Council's Treasury Management Strategy for 2014/15 was approved on the 25 February 2014 and the Treasury Management strategy for 2015/16 was approved on the 24 February 2015 by Full Council. The strategy comprehensively outlines how the treasury function would operate throughout the financial year 2014/15 including the limits and criteria for organisations to be used for the investment of surplus cash and the Council's policy on long-term borrowing and limits on debt.

The Council complied with the strategy during the period to 31 December 2014.

Investment of Pension Fund Cash

3.2. The Pension Fund surplus cash has been invested in accordance with the Council's Treasury Management Strategy agreed by Full Council on the 25 February 2014, under the delegated authority of the Director of Finance to manage within agreed parameters. The Treasury Management Strategy is reviewed on a monthly basis at the Treasury Risk & Investment Board (TRIB), a meeting consisting of Corporate Finance officers, and chaired by the Executive Director of Corporate Resources. The Pension Fund Panel (PFP) is updated on Pension Fund investment activity and the Chair of the PFP is briefed regularly.

## 4. Economic Background

4.1 The following is a summary of the key economic issues for the quarter ending 31 December 2014 which observed:

- Forward surveys about strong UK GDP growth continues although there is a slowdown in manufacturing growth;
- The MPC maintained its stance on monetary policy;
- The Eurozone is still facing a challenging environment.

4.2 The UK finalised its Q3 growth at 0.7% on the quarter and 2.6% on the year. A year on year comparison shows a marked downwards revision from 3.0%. However, growth still remains strong.

4.3 The UK 2014 Q4 (i.e. quarter ending December 2014) saw some of the strongest growth in consumer credit in the UK in nearly a decade. Consumer spending has been the key reason why the UK economy has performed so well recently and the announcement of an 8.3% rise in consumer lending at an annualised rate in the three months to November would normally fuel confidence in the continued strength of the recovery. However, this was in contrast to the unexpected slowdown in manufacturing growth. The UK Manufacturing Purchasing Managers' Index fell to 52.5 in December from 53.3 in November although the index remains above the 50 point threshold indicating growth, the sector has been slowing consistently since its high of 57.3 in April 2014.

4.4 It is not expected that there will be any change to monetary policy with the MPC continuing to postpone any increase in interest rates. Falling inflation rates has left little upside pressures and the slight wage increase is not sufficient to raise any concerns.

4.5 The US economy has been growing at its quickest pace in 11 years as its economy grew by 5.0% in the third quarter of 2014. Stronger consumer and business spending has contributed the rebound in the US.

4.6 There was concern in the Eurozone over the snap election caused by the Greek Parliament rejecting the government's presidential nominee. Greece's populist left wing Syriza party success at the polls unsettled markets and Greek bond yields spiked in the wake of markets concern about Syriza's next move.

4.7 Sentiment in Europe is likely to remain unsettled. German producers have seen factory orders contract sharply with lower the rate of growth over the year, mainly due to the sanctions against Russia a key export hub of Germany.

4.8 Globally, both Japan and China may require further support to arrest dwindling economic performances.

Economic Forecast

4.9 The Council's treasury advisor, Capita Asset Services (Sector), has provided the following forecast for interest rates; Capital Economics Bank Rate forecast has been provided for comparison:

| | Dec 14 | Mar 15 | June 15 | Sept 15 | Dec 15 | Mar 16 | June 16 | Sep 16 |
|---|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % | % |
| **Bank rate : Capita Asset Services** | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 |
| **Bank rate : Capita Economics** | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 |
| **10yr PWLB rate** | 3.20 | 3.40 | 3.50 | 3.60 | 3.70 | 3.80 | 3.90 | 4.00 |
| **25yr PWLB rate** | 3.90 | 4.00 | 4.10 | 4.30 | 4.40 | 4.50 | 4.60 | 4.70 |
| **50yr PWLB rate** | 3.90 | 4.00 | 4.10 | 4.30 | 4.40 | 4.50 | 4.60 | 4.70 |

## 5. Treasury Management Strategy Statement

Annual Investment Strategy

5.1 The Council's Annual Investment Strategy, is an integral part of the approved Treasury Management Strategy 2014/15, it outlines the Council's investment priorities as follows (in order of priority).

- Security of Capital
- Liquidity
- Yield

5.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity.

5.3 The Council manages its investments in-house and invests with institutions on the Council's approved lending list (appendix 2). In response to the global financial uncertainties, the Council continues to operate to a restricted lending list and a summary of the institutions to which the Council can lend to is outlined below:

**1.** The UK Government directly (Debt Management Office)
**2.** The UK Government (Treasury Bill via King & Shaxson)
**3.** Lloyds and RBS (because of the UK government's stake in these institutions)
**4.** The Council's banker (Lloyds)*
**5.** HSBC
**6.** Standard Chartered Bank (Certificate of Deposit via King & Shaxson)
**7.** Barclays Bank
**8.** Nationwide Building Society
**9.** Local Authorities

**The Council changed its banker from RBS to Lloyds in June 2014*

**Overall Treasury Cash Flow Position as at 31 December 2014**

The Council's temporary borrowing and lending activity (that is 364 days or less) over the period is set out below.

| **Description** | **Borrowing £m** | **Lending £m** | **Net Position £m** |
|---|---|---|---|
| Outstanding 31 March 2014 | - | (219.289) | (219.289) |
| Raised/ (lent) during period | - | (7,711.840) | (7,711.840) |
| Repayments during period | - | 7,737.836 | 7,737.836 |
| Outstanding 31 December 2014 | - | **(193.293)** | **(193.293)** |

5.4 Over the reporting period to 31 December 2014, the Council's cash flows were maintained through lending activities on the wholesale money market and the net position outstanding at 31 December 2014 was a temporary lending balance of £193.293m.

5.5 There was no short term borrowing required during the reporting period.

5.6 Members are advised that the Council continues to place investments with a number of local authorities and these are considered to be of high credit quality and are therefore on the Council's approved list of counterparties. In the DCLG's Investment Guidance issued to Councils, Local Authority deposits are deemed to offer "high security and high liquidity". The Council had 22 investments placed across a number of councils totaling £59.8m as at 31 December 2014, these are set out in Appendix 1.

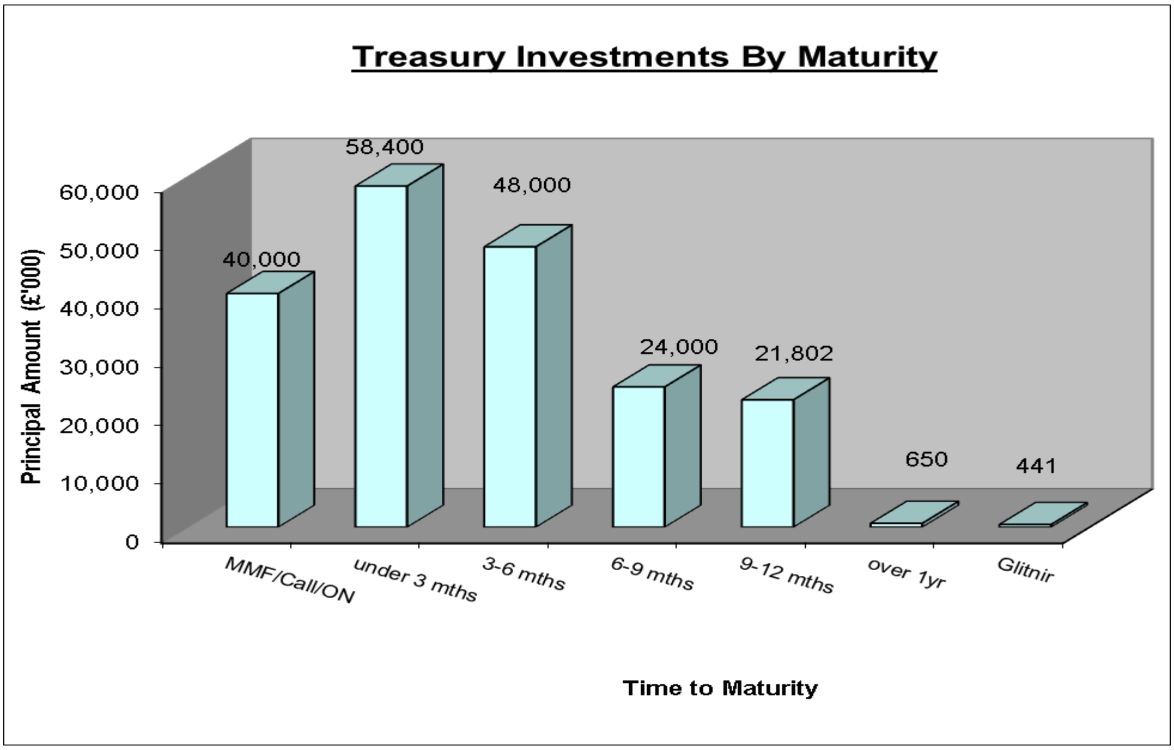
5.7 Investments held as at 31 December 2014 are outlined below:

| Counterparty Name | Total Investment as at 31/03/14 (£m) | Total Investment as at 31/12/14 (£m) |
|---|---|---|
| Local Authorities | (59.600) | (59.802) |
| Debt Management Office | (33.600) | (17.400) |
| Glitnir Bank HF | (0.441) | (0.441) |
| HSBC | (30.000) | (30.000) |
| Standard Chartered Bank | (10.000) | (0.000) |
| Lloyds TSB Bank Call Account | (30.000) | (30.000) |
| Royal Bank of Scotland | (10.000) | (40.000) |
| Barclays | (20.000) | (10.000) |
| Treasury Bills | (4.999) | (0.000) |
| Nationwide Building Society | (20.000) | (5.000) |
| Future Ealing Ltd | (0.600) | (0.600) |
| Ealing Community Resource Centre | (0.050) | (0.050) |
| **Total Investment** | **(219.290)** | **(193.293)** |

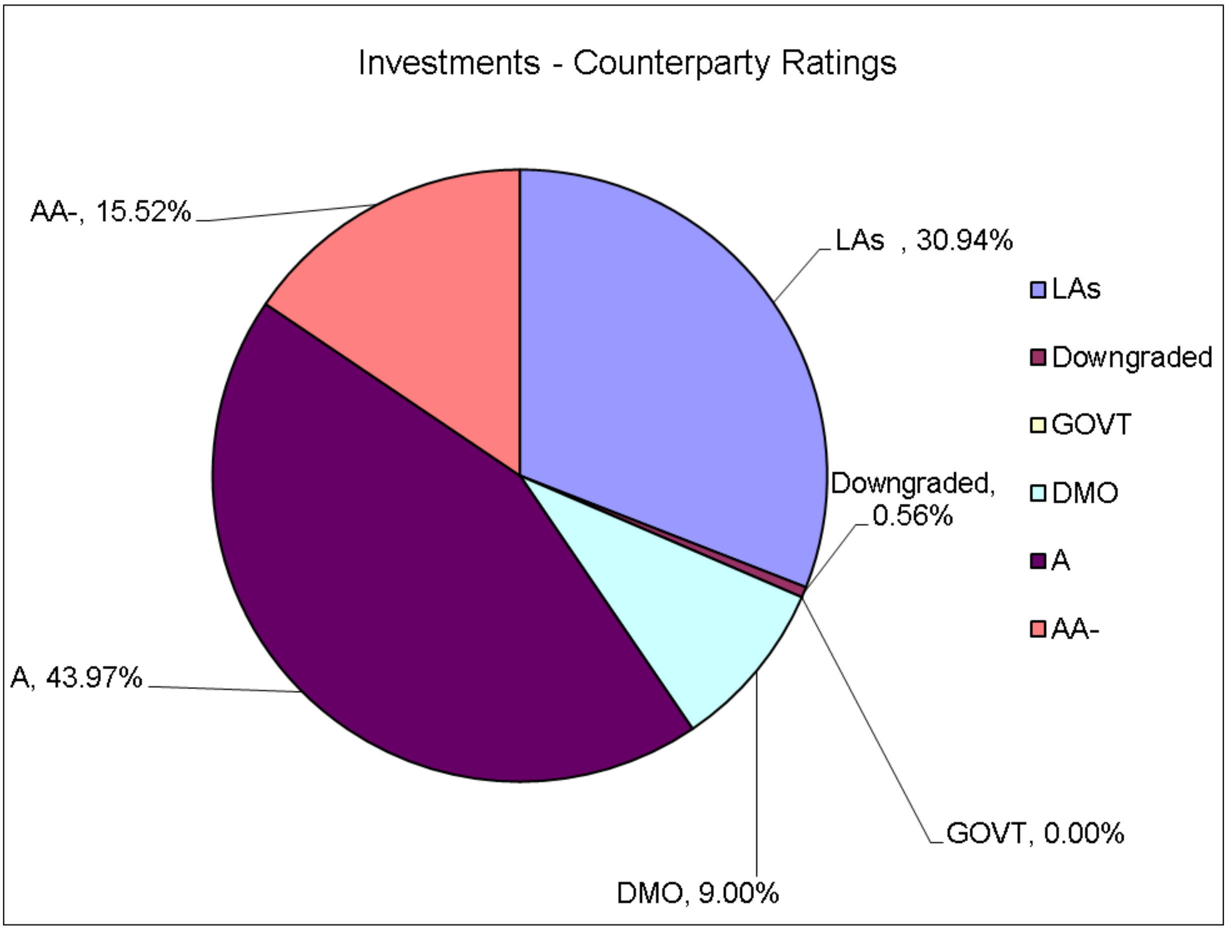
**Ealing's Local Education Partnership, a joint-venture company formed by the Council and Balfour Beatty Education to deliver Ealing's Building Schools for the Future programme.*

5.8 Investment activity during the quarter conformed to the approved strategy, and the Council did not experience any liquidity difficulties.

Investment Maturity Profile at 31 December 2014




Investments by Counterparty Rating at 31 December 2014




**Downgraded includes Glitnir, Future Ealing and Ealing Community Resource Centre*
*AA, A – Fitch credit rating. - check*

<u>Performance vs Benchmark</u>

5.9 Council investment returns outperformed the benchmark (7 day LIBID rate) during the reporting period. The table below outlines this performance.

| Month | Council Performance % | Benchmark Rate (7day LIBID rate) % | Over/(Under) Performance % |
|---|---|---|---|
| April 2014 | 0.553 | 0.338 | 0.215 |
| May 2014 | 0.561 | 0.337 | 0.224 |
| June 2014 | 0.561 | 0.348 | 0.213 |
| July 2014 | 0.565 | 0.352 | 0.213 |
| August 2014 | 0.576 | 0.352 | 0.224 |
| September 2014 | 0.601 | 0.356 | 0.245 |
| October 2014 | 0.581 | 0.356 | 0.225 |
| November 2014 | 0.615 | 0.355 | 0.260 |
| December 2014 | 0.606 | 0.355 | 0.251 |
| Average | 0.580 | 0.350 | 0.230 |

5.10 The Council maintained an average internally managed investment balance of

£237.12m and held an actual investment balance of £193.29m as at 31 December 2014. The internally managed fund earned an average return of 0.580%; the comparable performance indicator is the average 7-day LIBID rate, which returned an average of 0.350%. The Council's budgeted investment return to Q3 if income were profiled evenly over the full year is £1.000m; this was marginally exceeded by the actual accrued interest of £1.240m.

5.11 The ongoing uncertainties in financial markets has led TRIB to continue to place investments only with high quality counterparties such as the DMO and other local authorities. The outcome of this policy is a reduction in the investment income received by the Council that could otherwise be generated.

**Icelandic Investment update**

5.12 As reported previously Council has received the settlement in respect of the Council's £2m impaired Icelandic bank investment from the Glitnir winding up board. Due to capital controls that restrict the flow of funds out of Iceland, £0.441m was retained within an escrow account in Iceland earning interest of 4.2%. Much of this balance related to accrued interest on the original principal invested.

5.13 Whilst there are currently capital controls in place protecting the Icelandic Kroner, consensus amongst foreign investors is that once these controls are lifted, the value of the currency will fall: and thus reduce the value of the investment Ealing holds. The Central Bank of Iceland is reviewing ways in which it could lift capital controls without negatively impacting on the value of the ISK. Many commentators in Iceland have speculated that this could involve imposing a 30-40% exit tax: which would also impact upon Ealing's recoverable amount from Iceland.

5.14 There were only two methods immediately available to officers to recover the Icelandic investment: to take part in a currency auction, or to sell these to a third party. However this option would have incurred substantially more write off than would be incurred through the Central Bank currency auction process. There have been offers for as little as 20p in the pound.

5.15 Officers had the opportunity to participate in a currency auction on 13th February, and recovered £0.308m: i.e. around £0.133m was not recovered: this shortfall was partly attributable to loss on currency movements since the end of the financial year, but in the main attributable to the premium plus costs the Council had to pay to participate in the currency auction.

5.16 Whilst the currency auction did result in a shortfall recovery for Ealing, other methods or recovery would likely have resulted in higher losses, and it would have been remiss of the Council not to take advantage of this window of opportunity to repatriate the funds from Iceland.

## 6 Long Term Borrowing

6.1 The Council's Treasury Management Strategy Report approved in February 2014 outlined the Council's long term borrowing strategy for the year.

**HRA Self Financing**

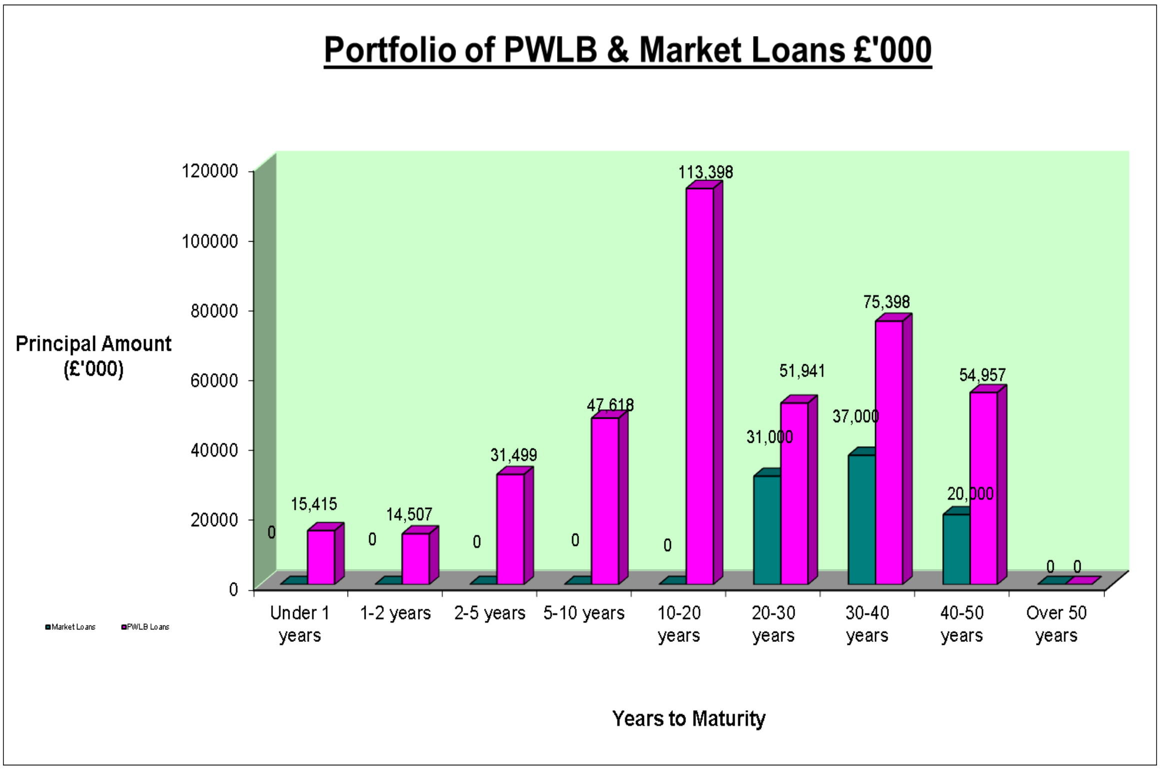
6.2 The Council's underlying need to borrow to finance capital expenditure is termed the

Capital Financing Requirement (CFR).

6.3 Total long term borrowing stood at £486.718m (including Mortlake Crematorium Board) as at 31 December 2014. The following table shows the split between General Fund and HRA borrowing, and that overall debt fell by £6.232m from £492.950m at the start of the financial year.

| **Source** | **Debt as at 31/03/14 £m** | **Loans raised £m** | **Loans repaid £m** | **Debt as at 31/12/14 £m** |
|---|---|---|---|---|
| **General Fund** | | | | |
| PWLB | 285.228 | - | (4.723) | 280.505 |
| Market Loans | 62.016 | - | - | 62.016 |
| *Mortlake Crematorium | 0.218 | 0.470 | - | 0.688 |
| **Total General Fund** | **347.462** | **0.470** | **(4.723)** | **343.209** |
| | | | | |
| **HRA** | | | | |
| PWLB | 119.505 | - | (1.979) | 117.526 |
| Market Loans | 25.983 | - | - | 25.983 |
| **Total HRA** | **145.488** | **-** | **(1.979)** | **143.509** |
| | | | | |
| **Total Long Term Borrowing** | **492.950** | **0.470** | **(6.702)** | **486.718** |
| **Memo Item:<br><br>PFI Obligation | 132.860 | - | (3.923) | 128.934 |

Notes:
**The £0.47m 'loan raised' figure relates to the arrangement with Mortlake Crematorium where monies are passed by Mortlake Crematorium Board for investment by the Council on the Boards behalf.*
***PFI schemes are shown on the balance sheet as long term creditors and are not classified under accounting rules as debt so are shown as a memo item here for completeness.*




- *The above graph does not include the Mortlake loan of £0.688m.*

**Debt Rescheduling**

6.1 Movements in interest rates over time can produce opportunities in financial markets, which allow the Council to take advantage of replacing existing loans with new loans at lower rates. This is known as debt rescheduling. The Council can also repay existing loans early without necessarily replacing the loans. These activities will attract a discount or premium depending on the prevailing market conditions.

6.2 No debt rescheduling opportunities have arisen during the quarter as the cost of premiums to repay debt outweighs savings that could be made from the lower PWLB borrowing rates.

**PWLB Certainty Rate**

6.3 The government launched a discounted rate as part of the Budget in March 2012. Cheaper borrowing rates are available from the Public Works Loans Board (PWLB) for councils that can provide improved information on borrowing plans.

6.4 The “certainty rate” is 20 basis points (0.2%) below the PWLB’s normal rate. The aim is to afford increased spending capacity from councils who will benefit from savings accrued from interest payments.

6.5 Although there was no plan to borrow, the Council renewed its application to remain qualified to borrow at the discounted certainty rate.

## 7. Treasury Management Governance and Scrutiny

7.1 The Council continues to review and ensure that it embraces best practice in the risk management, control, monitoring and reporting of its treasury management processes.

7.2 In addition to the regular quarterly reports to audit committee, regular monitoring of Treasury Management activities is carried out by senior management, the portfolio holder for Finance and the Treasury Risk and Investment Board (TRIB) which is chaired by the Executive Director of Corporate Resources.

## 8 Financial implications

8.1 The report informs the committee of the treasury management activities, the financial implications are contained throughout the report.

## 9 Prudential Indicators

9.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

9.2 The benefit of the indicators will be derived from monitoring them over time rather than from the absolute value of each. The indicators are not intended to be used as comparators between councils. A reporting process has been established, with a half-yearly report to Cabinet in which the indicators were amended to highlight any deviations from expectations.

## 10 Legal

10.1 The lending of surplus funds and any borrowing must comply with the Local Government Act 2003 as amended by regulations from time to time by the Government. Local authorities by virtue of section 15 (1) (a) of the 2003 Act must have regard to any guidance on investments issued by the Secretary of State, the latest such guidance was issued in April 2010. Further, local authorities must have regard to other guidance specified by the Secretary of State under section 15 (1) (b) of the 2003 Act. Regulation 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifically mentions that local authorities shall also have regard to CIPFA's Code of Practice on Treasury Management in the Public Services, the latest version of which was published in 2011.

10.2 To comply with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 requires the Council to approve an Annual Statement of Minimum Revenue Provision.

## 11 Value For Money

11.1 Assessment of value for money is achieved through:

- Monitoring against benchmarks
- Operating within budget

11.2 For example, internally managed investment returns exceeded the LIBID benchmark up to December 2014 and PWLB borrowing is being monitored in order to secure favourable rates below the budgeted target rate of 5.00%. In addition, the treasury function operated within budget in Q3 of 2014/15.

## 12 Risk Management

12.1 There is no treasury management activity without risk. Risk management plays a fundamental role in treasury activities, due to the value of transactions involved. When placing investments with counterparties, risk management and security of capital always remain the priority over returns.

12.2 The adoption of the CIPFA Code for Treasury Management in Public Services, the use of a Lending List and receiving advice from Capita Asset Services mitigate some of the risk associated with optimising performance returns. Security of capital remains the priority in the Council's investment with counterparties. The Treasury Team continue to be alert to concerns about the current Eurozone debt situation (e.g. Portugal, Ireland, Greece, Spain and Italy) and this is reflected in the Council's Lending List.

## 13 Community Safety

13.1 None

## 14 Links to Strategic Objectives

14.1 Proper and effective management of the Treasury Management function is an essential element of the financial administration process within the Council. Income generated from this source makes a significant contribution to the resources available to fund the Councils strategic objectives.

## 15 Equalities and Community Cohesion

15.1 None

## 16 Staffing Implications

16.1 The Director of Finance has delegated powers to make suitable arrangement for investment of Council's surplus funds, including amendment to the Council's lending list.

## 17 Any Other Implications

17.1 None

## 18 Consultation

18.1 See attached consultation

## 19 Timetable for implementation

19.1 Not Applicable

**BACKGROUND INFORMATION**

Lending and borrowing investments files kept on the 5th floor Perceval House. Cash fund manager reports.

**Consultation**

| Name of consultee | Department | Date sent to consultee | Date response received | Comments appear in report para: |
|---|---|---|---|---|
| Maria G Christofi | Director of Finance | 05/03/2015 | 06/03/2015 | 8 |
| Matthew Bunyon | Head of Financial Planning & Investments | | | Throughout |
| Mike Stringer | Head of Finance Transformation | 05/03/2015 | 06/03/15 | Throughout |
| Paddy Quill | Senior Lawyer | 06/03/2015 | | 10 |
| Cllr Murtagh | Chair of the Audit Committee | | | |

**Report History**

| Decision type: For Action/Information | Urgency item? No |
|---|---|

| Authorised by Cabinet member: | Date report drafted: | Report deadline: | Date report sent: |
|---|---|---|---|
| | 04 March 2015 | 10 March 2015 | 10 March 2015 |

| Report no.: | Report author and contact for queries: |
|---|---|
| | Bridget Uku, Treasury & Investments Manager, ext 5981 |

## Glossary of terms used in the report

**CFR -** Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

**Counterparties -** Organisations the Council lends money to e.g. Banks; Local Authorities and MMF.

**CPI & RPI -** Consumer Prices Index & Retail Prices Index
The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.

**Credit Default Swap (CDS) -** A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

**Credit watch -** Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.

**DMO -** Bank of England's Debt Management Office.

**Escrow Account –** A money account held by an independent third party and disbursed upon fulfillment of certain contractual conditions.

**Gilts -** Bonds issued by the UK government. The holder is paid a fixed cash amount (coupon) every six months until maturity, at which point the final coupon is paid along with the principal.

**IMF -** The International Monetary Fund is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

**Impaired investment -** An investment that has had a reduction in value to reflect changes that could impact significantly on the benefits expected from it.

**LIBID -** The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.

**Market Loans -** Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

**MMF -** Money Market Fund – a 'pool' of different types of investments managed by a fund manager, that invests in lightly liquid short term financial instruments with high credit rating.

**MPC -** Monetary Policy Committee- Committee designated by the Bank of England, whose main role is to regulate interest rates.

**MRP -** Minimum Revenue Provision – this is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

**Premium -** Cost of early repayment of loan to PWLB to compensate for any losses that they may incur.

**Prudential Indicators -** Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council's Capital Expenditure, Debt and Treasury Management.

**PWLB -** Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.

**QE -** Quantitative Easing. Usually, central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. Lower interest rates encourage people to spend, not save. But when short term interest rates can go no lower, a central bank can buy government bonds (including long-term bonds) or other financial assets (e.g. corporate bonds) in an effort to increase money supply and stimulate the economy. This is quantitative easing.

**Treasury Bill** – Short term debt instruments issued by the Government. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.