



**Report for: AUDIT COMMITTEE**

FOR INFORMATION

**Item Number:**

<b>Contains Private and Confidential Information</b>	<b>YES</b> (Appendix 2)	Pursuant to para. (3) of Schedule 12A of the Local Government Act 1972
<b>Title</b>	<b>Treasury Management Quarter 1 Update 2018/19</b>	
<b>Responsible Officer</b>	Ian O'Donnell: Executive Director of Corporate Resources. Ross Brown: Director of Finance (Deputy S151 Officer)	
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<b>Portfolio</b>	Cllr. Bassam Mahfouz – Finance & Leisure	
<b>For Consideration By</b>	Audit Committee	
<b>Date to be Considered</b>	25 July 2018	
<b>Implementation Date if Not Called In</b>	N/A	
<b>Affected Wards</b>	N/A	
<b>Area Committees</b>	N/A	
<b>Keywords/Index</b>	Treasury, Borrowing, Lending, Investments	
<b>Purpose of Report</b>		
<p>This report provides an update on the Council's borrowing and investment activities for the quarter ending 30 June 2018.</p> <p>Over the reporting period, all treasury management activities have been carried out in accordance with the approved limits. The report also provides information on the prevailing economic conditions over the reporting period.</p>		

## **1. Recommendations**

Members are recommended to:

- 1.1 Note the Treasury Management activities and performance against targets for the period to 30 June 2018.
- 1.2 Note the Council's investment balance of £107.480m as at 30 June 2018 of which £65.000m was invested in other Local Authorities (*Appendix 1*).
- 1.3 Note the Council's counterparty investment list (*Appendix 2 - Confidential*).

## **2. Reason for Decision and Options Considered**

- 2.1 This report updates on both the investment and borrowing decisions made by the Director of Finance under delegated authority in the context of the 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”.

### **Summary**

- 2.3 The key messages from this report are that:
  - All treasury management activities were executed by authorised officers within the parameters agreed by the Council.
  - All investments were made to counterparties on the Council's approved Counterparty Investment list and within approved limits.
  - No long-term borrowing was raised during the period reporting to 30 June 2018.
  - The existing long term debt to fund capital expenditure increased slightly from £530.963m to £531.038m due to an increase in the amounts held on behalf of the Mortlake Crematorium Board.
  - The council earned an average investment return of 0.667% on short term investments, outperforming the rolling average 7 Day LIBID rate of 0.120%.
  - The council currently holds no direct investments with overseas financial institutions, though these are held indirectly through the council's Money Market Funds (MMF) exposure.
  - The HRA debt is 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 2018/19**

- 3.1 The Council's Treasury Management Strategy for 2018/19 was approved on 20 February 2018 by Full Council. The strategy comprehensively outlined how the treasury function would operate throughout the financial year 2018/19 including the limits and criteria to be used to determine which organisations the Council would invest its surplus cash with, and the Council's policy on long term borrowing and limits on debt. The Council complied with the strategy during the period to 30 June 2018.

#### **Investment of Pension Fund Cash**

- 3.2 The Pension Fund's surplus cash is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2018, which is delegated to the Director of Finance to manage on a day to day basis within set parameters. The cash is now held at the fund's custodian bank account from where it is swept nightly into a money market fund operated by Goldman Sachs.
- 3.3 The Treasury Management Strategy is reviewed on a monthly basis at the Treasury Risk & Investment Board (TRIB), a meeting consisting of Corporate Finance Officers including the Director of Finance, the Treasury & Investments Manager, and chaired by the Executive Director of Corporate Resources. The Pension Fund Panel (PFP) is updated on Pension Fund investment activities and the Chair of the PFP is briefed regularly.

### **4. Economic Background**

- 4.1 The following is a summary of key economic conditions prevailing during the first quarter of the financial year 2018/19:
- UK growth in the first quarter of 2018 came in at 0.20%. As a result, the Monetary Policy Committee (MPC) left rates unchanged in May.
  - Consumer expenditure, which is the biggest driver of the services sector (75% of GDP), has been impacted by negative growth in consumer disposable income.
  - The manufacturing sector experienced its weakest quarter in one and a half years.
  - EU inflation in April 2018 came in at 1.10%. The European Central Bank (ECB) announced that it would halve its monthly quantitative easing purchases from €30bn to €15bn.
  - US economy grew by 2.00% in the first quarter of the year.
- 4.2 Growth in the first quarter of 2018 was disappointingly weak coming in at 0.20%. This had been initially reported at 0.10% which sparked fears that the economy may have started a prolonged period of very weak growth. However initial indicators in quarter 2 are that growth may have picked up to around 0.40%.

- 4.3 The main reason for weak growth during 2017 and 2018 can be attributed to inflation consistently exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income. Consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.
- 4.4 The manufacturing sector, which was the bright spot in the economy in 2017 in terms of strong growth, experienced its weakest quarter in one and a half years. Forward indicators do not suggest a return to strong growth is likely.
- 4.5 During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw a dramatic shift in opinion due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather may have been a key contributor. As a result, the MPC kept the Bank Rate unchanged at 0.50%, although opinion has started to turn again to suggest that an August Bank Rate increase may be back on the cards.
- 4.6 There still remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment. Therefore, in the opinion of economic forecasters it is far too early to be confident about how strong growth and inflationary pressures will be over the next two years and ultimately, the pace of any rate increases.
- 4.7 Despite providing significant monetary stimulus, the European Central Bank (ECB) has been struggling to get inflation up to its 2% target. However, in April the headline Eurozone rate jumped up from 1.40% to 1.90% although the core inflation rate was still subdued rising from 0.70% to 1.10%.
- 4.8 Growth in the US economy came in at 2.00% in the first quarter of 2018. The \$1.5m trillion Trump income tax cut package coming into effect in January 2018, is likely to boost growth to the 3% target. However, it is also likely to boost inflation at a time when there is minimal spare capacity in the economy. Unemployment, in particular, has fallen to the lowest level for 17 years, reaching 3.80% in May.
- 4.9 The Fed has started an upswing in rates with seven increases since the first one in December 2015, the latest one being in June 2018 which lifted the central rate from 1.75% to 2.00%. The markets are anticipating at least a further two or more increases in 2018.

## Economic Forecast

- 4.10 The Council's treasury advisor, Link Asset Services (LAS), has provided the following interest rate forecast:

**Table 1 – Interest Rate Forecasts**

	Sep-18 %	Dec-18 %	Mar-19 %	Jun-19 %	Sep-19 %	Dec-19 %	Mar-20 %
<b>Bank of Rate</b>							
<b>Link</b>	0.50	0.75	0.75	0.75	1.00	1.00	1.00
<b>Capital Eco.</b>	0.75	1.00	1.00	1.25	1.25	1.50	1.50
<b>5yr PWLB Rate</b>							
<b>Link</b>	2.00	2.00	2.10	2.20	2.20	2.30	2.30
<b>Capital Eco.</b>	1.95	2.15	2.20	2.30	2.35	2.40	2.40
<b>10yr PWLB</b>							
<b>Link</b>	2.40	2.50	2.60	2.60	2.70	2.80	2.80
<b>Capital Eco.</b>	2.40	2.55	2.60	2.70	2.75	2.80	2.80
<b>25yr PWLB</b>							
<b>Link</b>	2.80	2.90	3.00	3.10	3.20	3.30	3.30
<b>Capital Eco.</b>	2.95	3.10	3.15	3.25	3.30	3.35	3.50
<b>50yr PWLB</b>							
<b>Link</b>	2.50	2.60	2.70	2.80	2.90	3.00	3.40
<b>Capital Eco.</b>	2.75	2.90	2.95	3.05	3.10	3.15	3.15

- 4.11 LAS undertook its last review of interest rate forecasts on 11 May 2018, after the quarterly Bank of England Inflation Report and MPC meeting at which the MPC kept the Bank Rate unchanged at 0.50%. The MPC indicated they wanted to see whether the slowdown in growth in quarter 1 had been a temporary blip or a potential first sign of a prolonged period of weak growth.
- 4.12 LAS anticipate that the first interest rate forecast will be in the final quarter of 2018. However, Capital Economics have forecast at least two interest rate increases before the end of this calendar year. This forecast position is comparably more aggressive than the generally held markets view that there will only be one increase in 2018.
- 4.13 The overall balance of risks to economic recovery in the UK is probably even. However, given the uncertainties around Brexit and other wider economic issues, there is a wide range of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

## 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 for 2018/19 and there are no proposed changes to that strategy. It outlines the Council's investment priorities as follows (in order of priority):

- Security of Capital
- Liquidity
- Yield

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

5.3 The Council managed its investments in-house and invested with institutions on the Council's approved counterparty investment list (Appendix 2). Following the global financial crises and persistent uncertainties, the Council remains relatively risk averse and operates a restricted counterparty investment list and a summary of the institutions to which the Council invested with is outlined below:

1. The UK Government directly (Debt Management Office)
2. The UK Government (Treasury Bill via King & Shaxson)
3. RBS
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
10. AAA rated Money Market Funds

5.4 The Council's temporary investment and borrowing activity (that is 365 days or less) over the period is set out below:

**Table 2: Overall Treasury Cash Flow Position as at 30 June 2018**

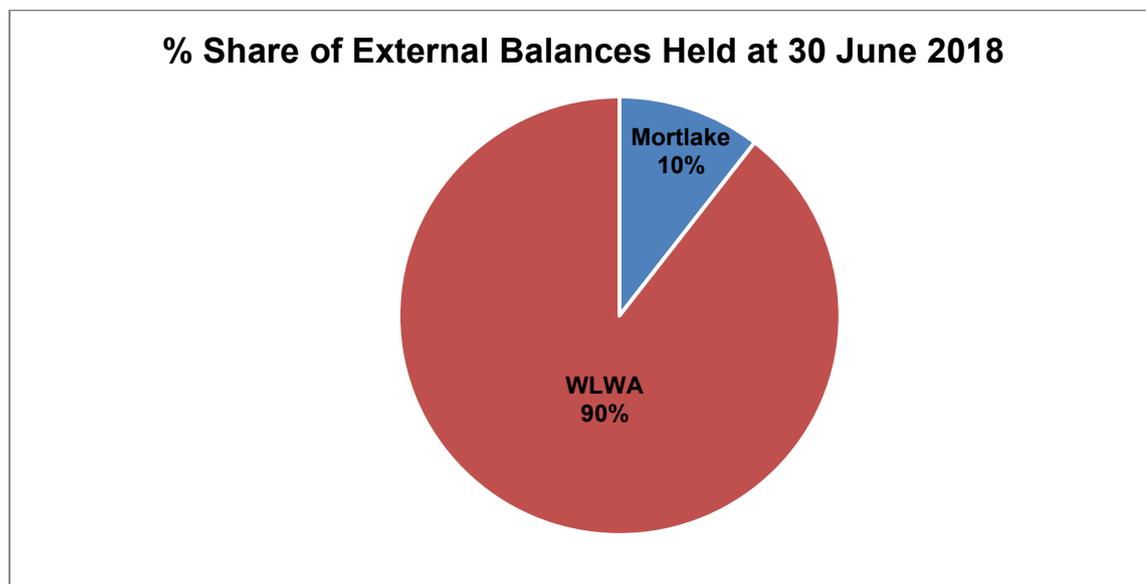
Description	Investments	Borrowing	Net Position
	£m	£m	£m
<b>Outstanding 1 April 2018</b>	93.790	(10.000)	83.790
<b>Raised during period</b>	368.110	0.000	368.110
<b>Repayments during period</b>	(354.420)	0.000	(354.420)
<b>Outstanding 30 June 2018</b>	<b>107.480</b>	<b>(10.000)</b>	<b>97.480</b>

5.5 Over the period to 30 June 2018, the Council's cash flows were maintained through borrowing and investment activities on the wholesale money market and the net investment position at the reporting date was £97.480m.

- 5.6 No additional borrowing was raised during the period to cover short term cash flow requirements. Therefore £10.000m of temporary borrowing was outstanding at 30 June 2018.

### Investments Held on Behalf of External Parties

- 5.7 The Council has an agreement with West London Waste Authority (WLWA) and the Board of Mortlake Crematorium to invest funds on behalf of the organisations. The total funds under the arrangement at 30 June 2018 were £18.993m as shown below.



### Investments held by the Council

- 5.8 The Council maintained an average balance of £114.839m of internally managed funds and held an outstanding balance of £107.480m as at 30 June 2018. The internally managed funds earned an average rate of 0.667%. The comparable performance indicator is the average 7-day LIBID rate, which returned 0.210% during the same period. This is illustrated in the table below.

**Table 3: Performance vs Benchmark**

Month	Council Performance	Benchmark Rate (7day LIBID rate)	Outperformance
<b>April 2018</b>	0.577%	0.210%	0.367%
<b>May 2018</b>	0.653%	0.210%	0.443%
<b>June 2018</b>	0.771%	0.210%	0.561%
<b>Average</b>	<b>0.667%</b>	<b>0.210%</b>	<b>0.457%</b>

5.9 The Council's total investments held at 30 June 2018 are outlined below:

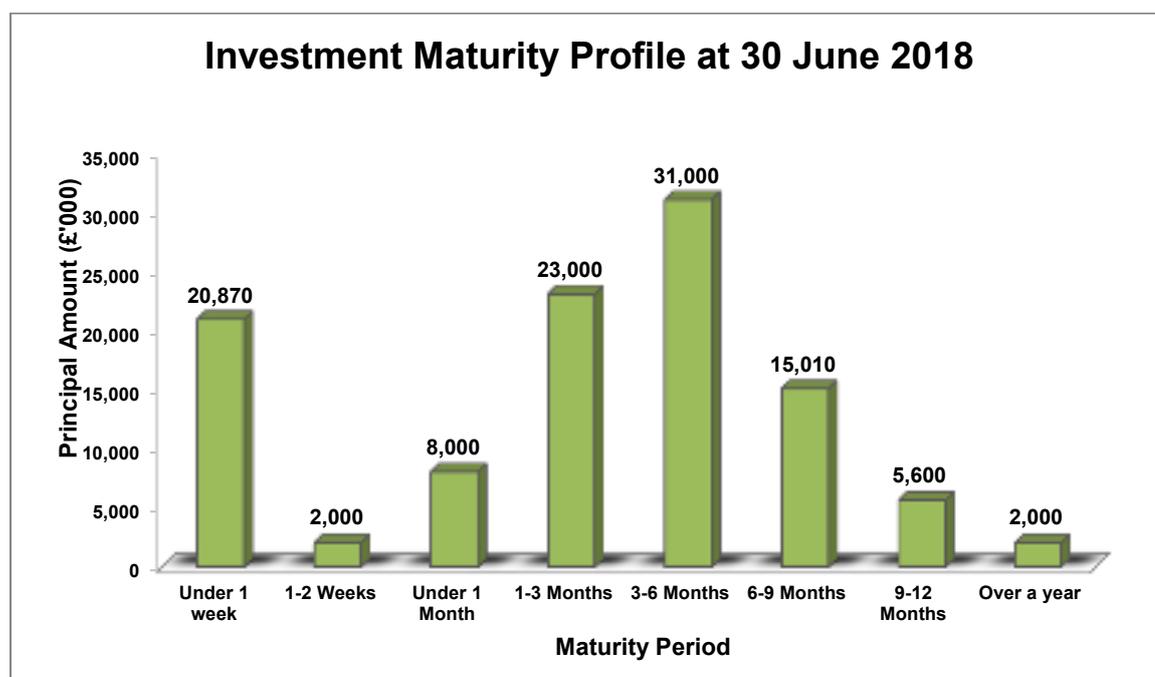
**Table 4: Treasury Investment Portfolio**

Counterparty Name	Total Investment as at 31/03/2018	Total Investments at 31/06/2018
	£m	£m
<b>Local authorities</b>	49.500	65.000
<b>HSBC</b>	30.000	-
<b>Lloyds</b>	13.670	7.200
<b>Barclays</b>	-	-
<b>Nationwide Building Society</b>	-	15.000
<b>Debt Management Office</b>	-	-
<b>Money Market Funds</b>	-	19.670
<b>Other</b>	0.620	0.610
<b>Total Investments</b>	<b>93.790</b>	<b>107.480</b>

- *Other investments include £0.60m investment in Future Ealing Ltd and £0.010m in Ealing Community Resource Centre Ltd.*

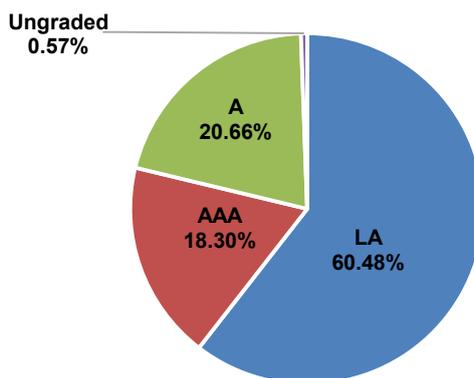
5.10 Investment activities during the quarter conformed to the approved strategy, and the Council did not experience any liquidity difficulty.

5.11 The Council continues to place investments with several local authorities which are considered to be of high credit quality and are therefore on the Council's approved list of counterparties. The Council had 16 investments placed across several local authorities to the sum of £65.000m.



- *The Council currently has one investment that has a maturity period of over one year – Cheshire West & Chester Council*

### % Share of Investments by Counterparty Ratings at 30 June 2018



- *Ungraded includes Future Ealing of 0.56% and Ealing Community of 0.01% AAA, A – Fitch credit rating*

- 5.12 The Council's counterparty list includes Money Market Funds (MMFs) which are liquid funds investing globally in a diversified range of underlying instruments with highly rated counterparties. All the funds chosen are AAA rated with constant Net Asset Value (NAVs) strong sponsors and should provide a safe home for short term cash, with ready liquidity and relatively better returns given the transient nature of the authority's cash flows.
- 5.13 This does mean that the authority has indirect exposure to foreign institutions, but officers feel it is prudent for the authority to diversify away from the current UK focused stance. As at 30 June 2018, the outstanding balance of MMFs investments was £19.670m.
- 5.14 There are some changes to the rules around MMF's (due 2019) which will mean that the constant Net Asset Value (NAV) MMF which we currently invest in will no longer be available. There will be three types of funds, a Variable NAV, a public debt constant NAV and a Low Volatility NAV money market fund.

## 6 Long Term Borrowing Requirement and Debt

- 6.1 The Council's Treasury Management Strategy Report approved in February 2018 outlined the Council's long term borrowing strategy for the financial year 2018/19. Over the course of the reporting period, the Council's cash flow requirements were financed through internal borrowing.
- 6.2 The total long term borrowing at 30 June 2018 was £531.038m (including Mortlake Crematorium Board Loan). The following table shows the split between General Fund and HRA borrowing. There were no maturities nor additional PWLB loans raised in the reporting period.

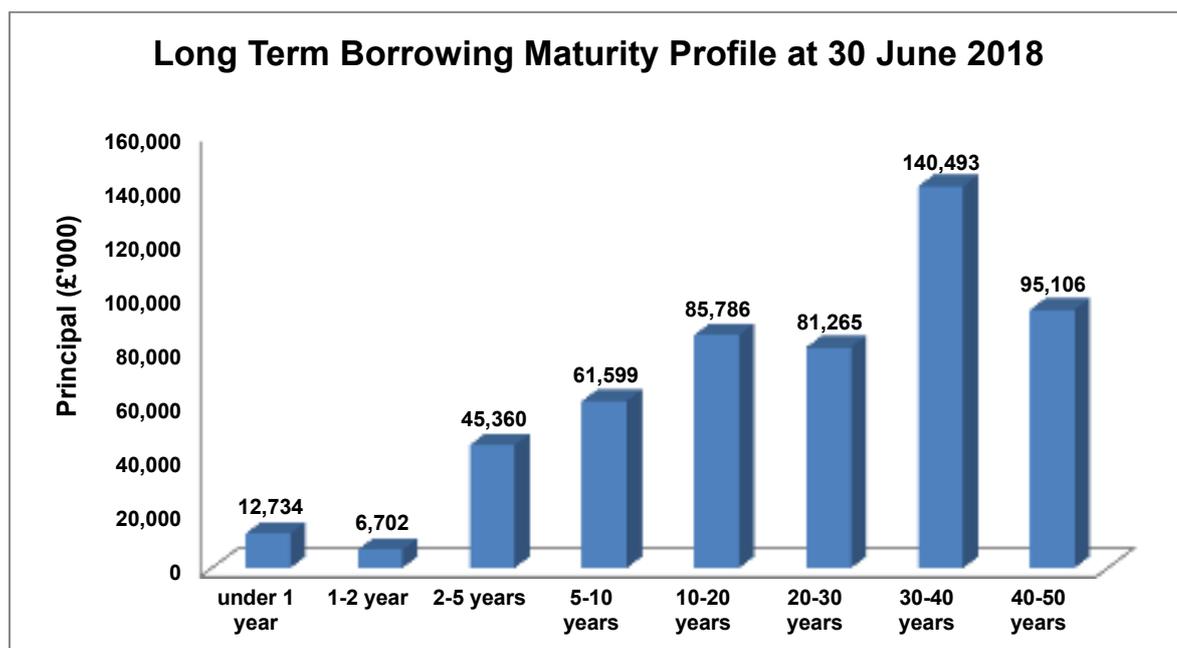
**Table 5: External Debt**

Source	Debt as at 31/03/18	Loans raised	Loans repaid	Debt as at 30/06/2018
	£m	£m	£m	£m
<b>General Fund</b>				
PWLB	320.916	-	-	320.916
Market Loans	62.016	-	-	62.016
*Mortlake Crematorium	1.918	0.075	-	1.993
<b>Total General Fund</b>	<b>384.850</b>	<b>0.075</b>	<b>0.000</b>	<b>384.925</b>
<b>HRA</b>				
PWLB	120.129	-	-	120.129
Market Loans	25.984	-	-	25.984
<b>Total HRA</b>	<b>146.113</b>	<b>0.000</b>	<b>0.000</b>	<b>146.113</b>
<b>Total Long Term Borrowing</b>	<b>530.963</b>	<b>0.075</b>	<b>0.000</b>	<b>531.038</b>
**Memo Item:				
<b>Other Long Term Liabilities (OLTL)</b>	<b>120.135</b>	<b>-</b>	<b>0.000</b>	<b>120.135</b>

**Notes:**

\*The £0.075m 'loan raised' figure relates to monies which are transferred by Mortlake Crematorium Board for investment by the Council on the Board's behalf

\*\*Other Long Term Liabilities (OLTL) 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 £1.993m.

6.3 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The Council's actual borrowing at the end of the quarter was within the anticipated year end CFR of £829.537m. The table below shows the breakdown of the Council's total CFR.

**Table 6: Capital Financing Requirement for 2018/19**

<b>Capital Financing Requirement</b>	<b>2017/18 Actual</b>	<b>2018/19 Estimate</b>
	<b>£m</b>	<b>£m</b>
CFR - General Fund	495.625	546.602
CFR - Housing Revenue Account	162.800	162.800
Other Long Term Liabilities - PFI	120.135	120.135
<b>Total CFR</b>	<b>778.560</b>	<b>829.537</b>

**Debt Rescheduling**

- 6.4 Movements in interest rates over time can produce dislocations, which can present opportunities for the Council to replace existing loans with new loans at lower rates. 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. Debt rescheduling opportunities have been limited in the current economic climate following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010.
- 6.5 There were no debt rescheduling opportunities in the reporting period, as the cost of premium to repay debt outweighed savings that could be achieved from the lower PWLB borrowing rates.

**PWLB Certainty Rate**

- 6.6 The government launched a discounted borrowing rate as part of the Budget in March 2012. The PWLB Certainty Rate was introduced by the PWLB in November 2012, allowing local authorities to borrow at a discount of 0.20% on the Standard Rate. The Council is currently reapplying to borrow at the preferential certainty rate during the financial year 2018/19.

**7. Treasury Management Update Outside the Reporting Period**

- 7.1. There is no information to update on activities that have occurred outside the reporting period.

**8. Treasury Management Governance and Scrutiny**

- 8.1 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.
- 8.2 In addition to the regular quarterly reports to audit committee, regular monitoring of Treasury Management activities is carried out by the senior management team, the portfolio holder for Finance and the Treasury Risk and Investment Board (TRIB) which is chaired by the Executive Director of Corporate Resources.
- 8.3 The purpose of these reporting arrangements is to ensure that those with the ultimate responsibility for the Treasury Management function have an appreciation of the implications of treasury management policies and activities, and that those implementing the policies and executing transactions have properly fulfilled their responsibilities with regards to delegation and reporting.

## **9. Financial implications**

- 9.1 The Treasury Management outturn position has continued the trend of recent years, with lower financing costs and reduced spending mainly attributable to deferred borrowing and some slippage on the capital programme. However, with current market conditions starting to shift, the borrowing position is under constant review and the Council will consider new borrowing at appropriate times. The current forecast for 2018/19 shows finance costs to be on budget.

## **10 Prudential Indicators**

- 10.1 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.
- 10.2 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. An update on the prudential indicators has been provided with the 2017/18 Treasury Management outturn report. The next update will be included with the mid-year update report.

## **11 Legal**

- 11.1 The investment 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. Section 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifically mentions that local authorities shall also have regard to the code of practice contained in the document entitled "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" published by CIPFA, as amended or reissued from time to time.
- 11.2 To comply with the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires full Council to approve an Annual Statement of Minimum Revenue Provision.

## **12 Value for Money**

- 12.1 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget
- 12.2 For example, internally managed investment returns exceeded the LIBID benchmark on the 30 June 2018 and the PWLB borrowing was monitored throughout the year, the budgeted rate for 2018/19 was 3.50%. In addition, the treasury function operated within budget over the reporting period.

## **13 Risk Management**

- 13.1 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.
- 13.2 The adoption of the CIPFA Code for Treasury Management in Public Services, the use of an investment list and receiving advice from Link 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 continues to be alert to concerns regarding the current Eurozone debt situation (e.g. Portugal, Ireland, Greece, Spain and Italy) and this is reflected in the Council's Counterparty Investment List.

## **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 Council's strategic objectives.

## **15 Consultation**

- 15.1 Link Asset Services provides the Council with advice on treasury management.

## **16 Appendices**

- 16.1 Appendix 1 – Investment in Local Authorities  
Appendix 2 – LB Ealing Counterparty Investment List – Private & Confidential

## **17 Background Information**

- 17.1 Investment and borrowing activity files are kept at Perceval House on the 5<sup>th</sup> Floor.

## Consultation

Name of Consultee	Department	Date sent to consultee	Date response received	Comments appear in report para:
Ross Brown	Director of Finance (Deputy S151)	10/07/2018	11/07/2018	Throughout
Pat Main	Acting Head of Corporate Finance	10/07/2018		
Paddy Quill Helen Harris	Legal	15/07/2018		
Cllr Bassam Mahfouz	Portfolio Holder for Finance & Leisure	11/07/2018	12/07/2018	Throughout
Cllr Tim Murtagh	Chair, Audit Committee	16/07/2018		

## Report History

<b>Decision type: For Action/Information</b>	<b>Urgency item? No</b>
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<b>Authorised by Cabinet member:</b>	<b>Date report drafted:</b> 10/07/2018	<b>Report deadline:</b> 16/07/2018	<b>Date report sent:</b>
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<b>Report no.:</b>	<b>Report author and contact for queries:</b>
	Bridget Uku, Group Manager - Treasury & Investments ext 5981 Tim Mpofu, Treasury & Investments Accountant ext 8083

## **Glossary of terms used in the report**

**CFR** – Capital Financing Requirement – a measure of the Council’s underlying need to borrow to finance capital expenditure.

**Counterparties** – Organisations the Council invests its surplus money with e.g. Banks; Local Authorities and MMFs.

**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** – A 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.

**GDP** – Gross Domestic Product; a measure of a country’s economic growth.

**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 reduces 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 which are available on 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 designated by the Bank of England, whose main role is to regulate interest rates.

**MRP** – The Minimum Revenue Provision 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.