0REPORT REFERENCE NO.	**RC/18/9**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**16 MAY 2018**
SUBJECT OF REPORT	**TREASURY MANAGEMENT – QUARTER FOUR AND ANNUAL REPORT 2017/18**
LEAD OFFICER	**Director of Finance (Treasurer)**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2017-18 including the fourth quarter, as set out in this report, be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted. The report includes a performance report relating to the final quarter of the 2017-18 financial year and a summary of annual performance. A representative (Adam Burleton) from Link Asset Services, the Authority external treasury management advisors, will be in attendance at the meeting to present the performance report.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY RISK AND BENEFIT ASSESSMENT (ERBA)	An initial assessment has not identified any equality issues emanating from this report.
APPENDICES	A. Prudential indicators 2017-18 B. Glossary of Terms
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report to budget meeting held on the 17th February 2017 DSFRA/17/3

1. INTRODUCTION

1.1 The Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017-18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The receipt by the Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of the previous year.
- The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.

1.3 During 2017-18 the minimum reporting requirements were that the full Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority meeting 17th February 2017).
- a mid-year treasury update report (Authority meeting 18th December 2017).
- an annual review following the end of the year describing the activity compared to the strategy (this report).

1.4 In addition, the Resources Committee has received quarterly treasury management update reports on 1st September 2017, 15th November 2017 and 8th February 2018.

1.5 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

1.6 The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Authority. Members have been supported in their scrutiny role through regular updates and the attendance at Committee meetings by the Authority's Treasury Management advisors, Link Asset Services.

1.7 A glossary of terms and acronyms used is provided at Appendix B of this report

2. THE ECONOMY AND INTEREST RATES

2.1 **UK**. The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and European Zone).

2.2 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

2.3 Consequently, market expectations during the autumn rose significantly that the Monetary Policy Committee (MPC) would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened its wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

2.4 However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

2.5 PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Federal Reserve (the central banking system of the USA) raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

2.6 As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

2.7 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

2.8 The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

2.9 **EU.** Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

2.10 **USA.** Growth in the American economy was volatile in 2015 and 2016. 2017 followed that path again with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building.

2.11 The Federal Reserve has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Federal Reserve faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Federal Reserve also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

2.12 **Chinese** economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

2.13 **Japan.** GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

3. OVERALL TREASURY POSITION AS AT 31 MARCH 2018

3.1 The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

3.2 At the end of 2017-18 the Authority's treasury position was as follows:

SUMMARY	31st March 2017 Principal	Rate/ Return	31st March 2018 Principal	Rate/ Return
Total Debt				
- PWLB (All fixed rate funding)	*£25.723m*	*4.231%*	*£25.631m*	*4.233%*
-Other Long Term Liabilities	*£1.374m*		*£1.299m*	
Total	*£27.097m*		*£26.930m*	
CFR	*£27.098m*		*£26.929m*	
Over/(under) borrowing	*(0.001)m*		*£0.001m*	
Total Investments	*£34.662m*	*0.51%*	*£37.307m*	*0.55%*
NET DEBT	***£(7.565)m***		***£(10.337)m***	

3.3 The maturity structure of the debt portfolio was as follows:

	31 March 2017 actual	2017/18 original limits	31 March 2018 actual
Under 12 months	£0.094m	£7.689m	£0.093m
12 months and within 24 months	£0.094m	£7.689m	£0.093m
24 months and within 5 years	£0.780m	£12.815m	£1.180m
5 years and within 10 years	£4.131m	£19.223m	£4,213m
Over 10 years	£20.625m	£25.631m	£20.033m

4. STRATEGY FOR 2017-18

4.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 in 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

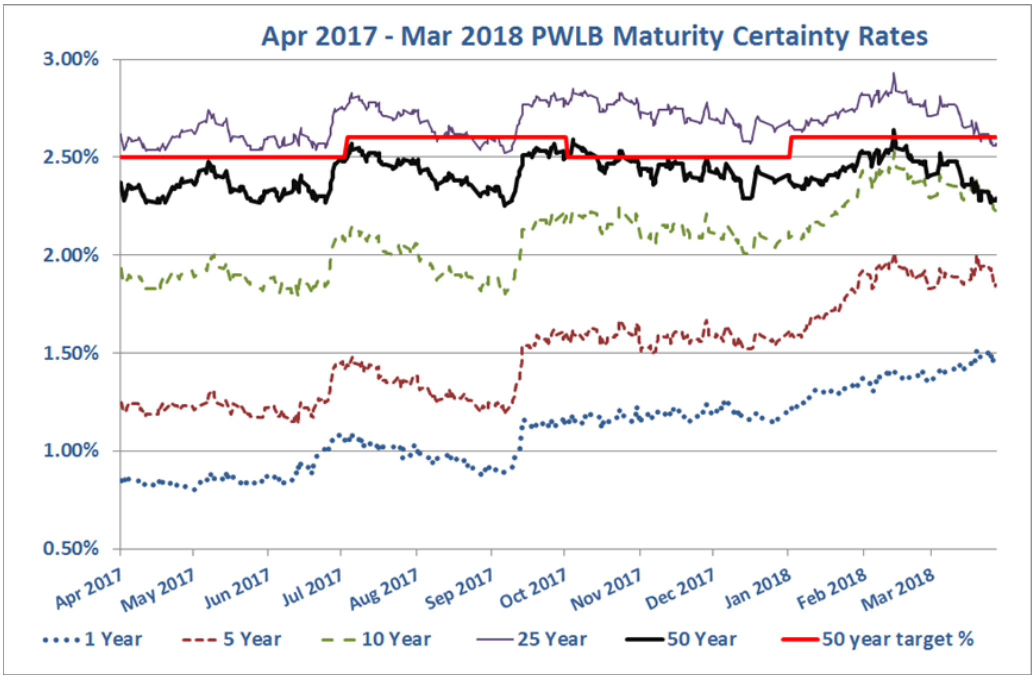
4.2 In this scenario the strategy, in line with Capital Requirements, was to avoid any new borrowing and bring the level of external loans in line with the Capital Financing Requirement as at 31 March 2018. Opportunities to reschedule or repay loans would be reviewed to reduce external borrowing where viable. If short term interest rates remain low, the Authority will borrow internally to avoid the cost of holding higher levels of investment and to reduce counterparty risk.

5. BORROWING

Public Works Loan Board (PWLB) borrowing rates 2017-18

5.1 As depicted in the graph and tables below, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50% in quarters 1 and 3 and 2.60% in quarters 2 and 4.

5.2 The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/17	0.85%	1.25%	1.93%	2.62%	2.37%
31/3/18	1.67%	2.05%	2.43%	2.77%	2.49%
Low	0.80%	1.14%	1.78%	2.52%	2.25%
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.51%	2.01%	2.53%	2.93%	2.64%
Date	21/03/2018	15/02/2018	15/02/2018	15/02/2018	15/02/2018
Average	1.11%	1.50%	2.08%	2.69%	2.41%

DSFRA Borrowing Strategy

Prudential Indicators

5.3 It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s’ approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.

5.4 During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

Authority borrowing during and at the end of 2017-18

5.5 No new borrowing was taken out in 2017-18 to support capital spending and therefore, because repayments of £0.093m loan principal have been made in year, the value of loans outstanding has decreased to £25.631m during the year. A summary of the loan (debt) position of the Authority is given in the table below. All existing borrowing has been taken out at Fixed Interest Rates.

5.6 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2016/17) plus the estimates of any additional capital financing requirement for the current (2017/18) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2017/18.

5.7 It is noted that the external borrowing figure of £25.631m as 31 March 2018 is the same as the Capital Financing Requirement (CFR), within rounding tolerance, which means that there is no over-borrowing position at the year-end. The Authority has complied with this prudential indicator. The table below demonstrates how the CFR is calculated and shows the CFR for 2017-18.

Capital Financing Requirement (£m)	31 March 2017 Actual	31 March 2018 Budget	31 March 2018 Actual
Opening balance	27.262	27.098	27.098
Add borrowing applied in year	1.992	1.922	1.962
Less MRP/VRP*	2.086	2.016	2.056
Less PFI & finance lease repayments	0.069	0.075	0.075
Closing balance	27.098	26.930	26.930

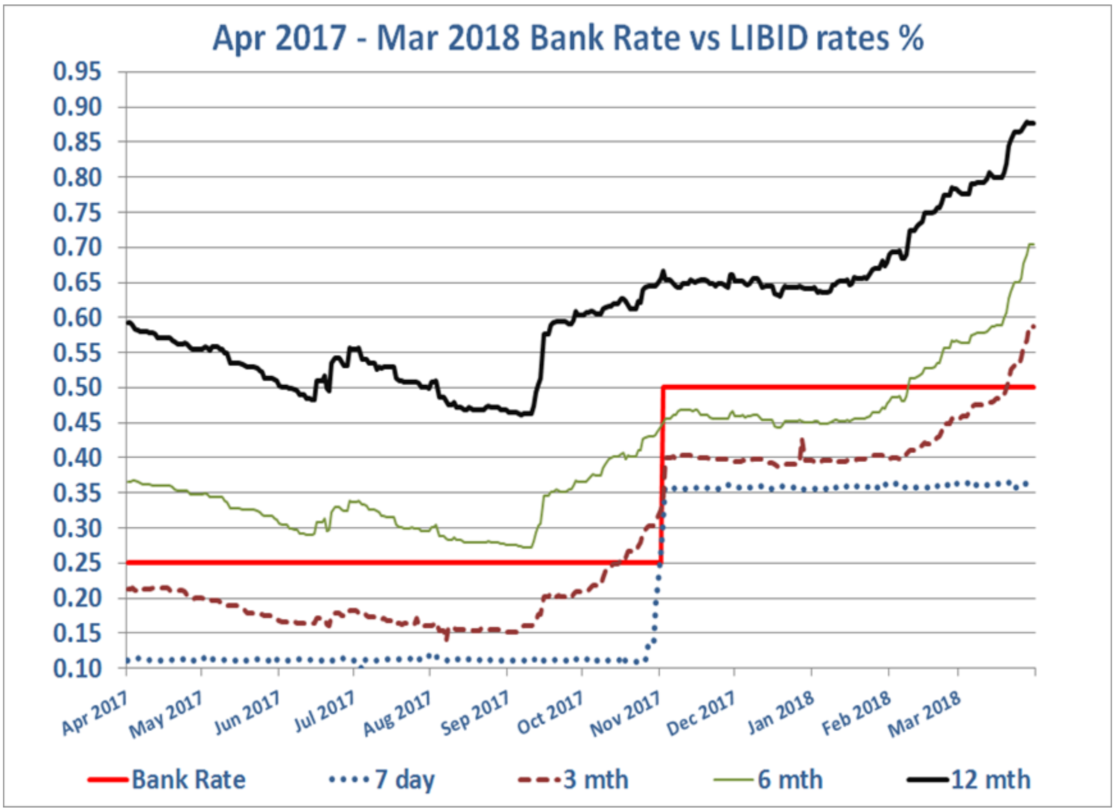
5.8 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of loan movements during 2017-18	**Amount £m**
Value of loans outstanding as at 1/4/2017	**25.723**
Loans taken during 2017-18	0.00
Loans repaid upon maturity during year	(0.093)
Loans rescheduled during year	0.00
Total value of loans outstanding as at 31/3/2018	**25.631**

6. INVESTMENTS

Investment rates in 2017-18

6.1 Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.



Authority Investment Strategy

6.2 The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity

6.3 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using our Treasury Management Advisors (Capita) suggested creditworthiness matrices, including Credit Default Swap overlay information provided by Sector. In addition to this approach the Authority has the ability to use building societies under specified and non-specified investments.

Authority Investments during and at the end of 2017-18

6.4 No institutions in which investments were made during 2017-18 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.5 A full list of investments held as at 31 March 2018 are shown in the table below:

Investments as at 31st March 2018					
Counterparty	**Maximum to be invested**	**Amount Invested**	**Call or Term**	**Period invested**	**Interest rate(s)**
	£m	£m			
Bank of Scotland	7.000	1.500	T	6 mths	0.36%
		2.100	T	12 mths	0.85%
Barclays Bank	8.000	0.001	C	Instant Access	Variable
		3.000	T	12 mths	0.55%
		3.000	T	6 mths	0.42%
Goldman Sachs	7.000	2.000	T	6 mths	0.67%
		5.000	T	6 mths	0.73%
Highland Council	5.000	3.000	T	6 mths	0.75%
Lloyds Bank	2.000	2.000	T	12 mths	0.90%
Nationwide	4.000	2.000	T	3 mths	0.49%
Santander	7.000	1.000	T	6 mths	0.40%
		1.000	T	6 mths	0.53%
		1.000	T	6 mths	0.58%
		1.000	T	6 mths	0.63%
Standard Life	6.000	3.906	C	Instant Access	Variable
Sumitomo Mitsui	7.000	1.800	T	6 mths	0.44%
		2.000	T	6 mths	0.58%
Surrey Heath Borough Council	5.000	2.000	T	6 mths	0.52%
Total amount Invested		**37.307**			

6.6 Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark – 3 month LIBID	Average level of funds available for Investment	Benchmark Return	Authority Performance	*Investment Interest Earned*
Quarter 1	£35.430m	0.19%	0.37%	£0.027m
Quarter 2	£40.497m	0.17%	0.32%	£0.050m
Quarter 3	£41.179m	0.35%	0.59%	£0.053m
Quarter 4	£38.344m	0.44%	0.57%	£0.054m
2017/18	£38.875m	0.29%	0.46%	£0.184m

6.7 The amount of investment income earned of £0.184m has exceeded the target by £0.106m as a result of levels of fund available for investment during the year being higher than anticipated and returns exceeding benchmark.

7. SUMMARY

7.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2017-18. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken during the year, with priority being given to liquidity and security over yield.

7.2 Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments continued to be dominated by risk considerations resulting in relatively low returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the London Inter-Bank Bid Rate 3 month rate, the benchmark return for this type of short term investments.

AMY WEBB
Director of Finance (Treasurer)

PRUDENTIAL INDICATOR	**2016-17 £m actual**	**2017-18 £m approved**	**2017-18 £m Actual**
Capital Expenditure			
TOTAL	2.758	7.568	2.889
Ratio of financing costs to net revenue stream			
Non – HRA	4.11%	5.00%	4.18%
Capital Financing Requirement as at 31 March (borrowing only)			
TOTAL	25.723	25.630	25.630
Annual change in Cap. Financing Requirement			
TOTAL	(0.094)	(0.169)	(0.169)
TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	£m	**£m**	**£m**
Authorised Limit for external debt -			
Borrowing	26.824	27,005	27,005
other long term liabilities	1.278	1,439	1,439
TOTAL	28.102	28,445	28,445
Operational Boundary for external debt -			
Borrowing	25.537	25,724	25,724
other long term liabilities	1.209	1,374	1,374
TOTAL	26.746	27,098	27,098
Actual external debt	27.098		26.929

	Actual 31st March 2018	upper limit %	lower limit %
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
Maturity structure of fixed rate borrowing during 2017-18			
Under 12 months	0.36%	30%	0%
12 months and within 24 months	0.36%	30%	0%
24 months and within 5 years	4.59%	50%	0%
5 years and within 10 years	16.45%	75%	0%
10 years and above	77.88%	100%	50%

APPENDIX B TO REPORT RC/18/9

Glossary of Terms

ALMO: an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.

LAS: Link Asset Services, Treasury solutions – the council's treasury management advisers.

CE: Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone
EU: European Union
EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a yield and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); yields therefore change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is a bid rate; the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MHCLG: the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main difference between RPI and CPI is in the way that housing costs are treated. RPI is often higher than CPI for that reason.

TMSS: the annual treasury management strategy statement report that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).