Council

Agenda Item: **09**

Ward: All

Portfolio: All

FROM: Corporate Finance

Date: 18 December 2017

SUBJECT: Treasury Management Strategy Statement – Mid-Year Review 2017/2018

Report Sign off	**Seen by:**	**Name**	**Date**
	Chief Executive	Stuart Brown	7 December 2017
	Legal	Donna Nolan	7 December 2017
	Finance	Duncan Moss	7 December 2017
	Group Manager	Paul Deal	7 December 2017
Summary:	This report reviews the treasury performance for the first 6 months of 2017/18, and building on the success of the commercial investment strategy, seeks to further increase the borrowing approval limit.		
Recommendation:	**Subject to the outcomes and any recommendation from the Cabinet meeting to be held 13 December 2017:** **Council is recommended to:** • **Note the half-yearly performance against 2017/18 investment strategy;** • **Note the current treasury activity and the mid-year report;** • **Consider whether to increase the borrowing approval limit in order to undertake further commercial investment to generate additional income.**		
Direct and/or indirect impact on service delivery to our customers and communities:	Any investment should contribute towards the aims of the Medium Term Resources Strategy to enable the delivery of efficient, high quality services.		
Legal Implications:	This proposal is consistent with the Council's powers to borrow and invest under the Local Government Act 2003 and the general power of competence in Section 1 of Localism Act 2011. The decision to invest is a policy matter for individual Councils.		

Financial Implications:	The investment will impact on the financing of the Capital programme and the investment return will be reflected in the revenue budgets. The aim is for the best financial return for the minimum exposure to risk.
Impact on Service Plans:	There should be a positive impact on service plans as the return on any investment will enable service standards to be maintained or even enhanced.
Value for Money:	Investing funding to generate an appropriate return that helps deliver a sustainable Medium Term Resource Strategy is fundamental to the Council's ability to demonstrate and achieve value for money in its operations.
Equalities Implications:	None as a direct result of this report.
Risk Assessment and Adverse Impact on Corporate Actions:	Under the Prudential Code, the Council is free to set is own borrowing limitations as long as they are prudent and affordable. The proposal is in line with the principal regulations are the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003/3146, as amended and also has regard to CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
Scrutiny Recommendation	This report is being considered at the Joint Scrutiny / Cabinet meeting.

1. BACKGROUND

The council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure the council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

Accordingly, treasury management is defined as:

> "The management of the local authority'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."

2. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this council on 20th February 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this council the delegated body is Cabinet:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The council's capital expenditure (prudential indicators);
- A review of the council's investment portfolio for 2017/18;
- A review of the council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

3. ECONOMIC PERFORMANCE TO DATE

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +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 has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong 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, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been 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 QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; 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.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

4. INTEREST RATE FORECAST

The council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in MPC policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this council on 20th February 2017.

Since then, the council has actively pursued a commercial investment strategy to derive new income streams for the council that will support the budget and the provision of services to residents. However, during that period, the economy has moved as outlined above leading to high levels of inflation which in turn add pressure to the MTRS. The latest forecast is that the funding shortfall over the next five financial years has now increased to over £5m.

To date, two properties have been secured that have used £16.193m of the £40m external borrowing capacity plus approximately £1m of internal. These properties will give a gross yield of £1.128m (6.6%) and after subtracting financial costs have contributed £0.707m (4.1%) to the base budget for at least the next 12 years. Work continues to identify further opportunities, both within and outside the district, with some in the later stages of the process.

Whilst the leadership is identifying efficiencies and new ways of working wherever possible, the increase in the funding shortfall cannot be met through these actions alone.

Given the successes to date, it is therefore proposed that the commercial investment strategy is enhanced to identify additional investments to close the remaining gap. The broad approach equates to approximately 50% of the shortfall being met through local decisions, with the other 50% being met through the commercial investment strategy.

On the basis of a prudent investment portfolio being developed, giving a net yield of 3.33% (£100k per £3m invested), in order to gain approximately £2.5m additional income would require investment in the region of £80m. It would be key that a balanced portfolio is developed, with investments in a variety of categories, both inside and outside the district (recognising the lower yield achievable locally), to minimise the associated risks as far as possible. It would also be advisable that additional capacity is considered to enable the council to react to any further shifts in the economic environment.

The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the prudential indicators below. Any proposed change to the Authorised Borrowing Limit will need approval by Full Council.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2017/18 Original Budget £'000s	Spend as at 30th September £'000s	2017/18 Revised Estimate £'000s
Corporate Services	25	0	23,603
Law & Governance	58	57	58
Neighbourhood Services	279	47	279
Community Health	48	0	48
Planning & Growth	0	23	23
Housing	951	211	951
5Councils	10	0	10
MDC Housing Company	0	0	5,000
Total	**1,370**	**338**	**29,972**

The increase in expenditure is due to the planned purchase of investment properties.

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Financing of Capital Expenditure	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Capital Expenditure	**1,370**	**29,972**
Financed by:		
Capital Receipts	41	41
Capital Grants	701	724
Direct Revenue Contribution	25	25
Total Financing	**767**	**790**
Borrowing requirements	**603**	**29,181**

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The increase in the CFR is due to the previously mentioned purchase of investment properties.

Capital Financing Requirement (CFR)	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Brought forward	1,410	1,410
Borrowing requirement	603	29,181
Less MRP and other financing movements	(162)	(162)
CFR Carried forward	**1,851**	**30,429**
Net movement in CFR	**441**	**29,019**

Prudential Indicator – Operational Boundary for external debt

Operational Boundary for external debt	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Borrowing	38,000	38,000
Other long term liabilities	0	0
Total debt at year end	**38,000**	**38,000**

6.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Borrowing	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Borrowing	0	28,578
Other long term liabilities	0	0
Total debt	0	28,578
CFR (at year end)	**1,851**	**30,429**

** Includes on balance sheet PFI schemes and finance leases etc.*

The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limits	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Borrowing	40,000	40,000
Other long term liabilities*	0	0
Total	**40,000**	**40,000**

** Includes on balance sheet PFI schemes and finance leases etc.*

7. AFFORDABILITY PRUDENTIAL INDICATORS

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

7.1 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Total	**0.59**	**2.06**

The revised estimates of financing costs include current commitments and the proposals to fund the additional expenditure on investment properties.

7.2 Estimates of the incremental impact of capital investment decisions on Council Tax.

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support and income from investment properties.

Incremental Impact of Capital Investment Decisions on the Band D Council Tax	2017/18 Original Estimate £'000s	2017/18 Revised Estimate £'000s
Total	**5.30**	**0.15**

8. INVESTMENT PORTFOLIO 2017/18

In accordance with the Code, it is the council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the council's risk appetite. As shown by forecasts, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £19,716,983 of investments as at 30 September 2017 (£20,345,875 of investments as at 30 September 2016). A full list of investments held as at 30th September 2017 is:

Investments / Lending Summary as at:		30th September 2017			
Borrower	**Amount Invested**	**Limit**	**Length of deposit**	**Terms**	**Rate %**
UK Government Gilt	£1,610,000	£5,000,000	N/A	Call	1.25%
	£1,000,000		6 months	Fixed	0.52%
	£1,000,000		5 months	Fixed	0.50%
	£1,000,000	£5,000,000	6 months	Fixed	0.53%
	£1,900,000		6 months	Fixed	0.33%
Bank of Scotland	£33		N/A	Call	0.15%
	£3,001,825	£5,000,000	NA	95 Day Notice	0.45%
Lloyds			6 months	Fixed	0.51%
	£3,504,203	£5,000,000	N/A	One day	0.45%
Bank of New York Mellon	£1,070,592		N/A	Call	0.21%
	£3,000,000	£5,000,000	6 months	Fixed	0.59%
Goldman Sachs	£2,000,000		6 months	Fixed	0.54%
Santander	£630,330	£5,000,000	N/A	Call	0.15%
Total	**£19,716,983**				

The Corporate Financial Advisor confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2017/18. The Council's revised estimate investment return for 2017/18 is £85,000.

Property Funds - The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

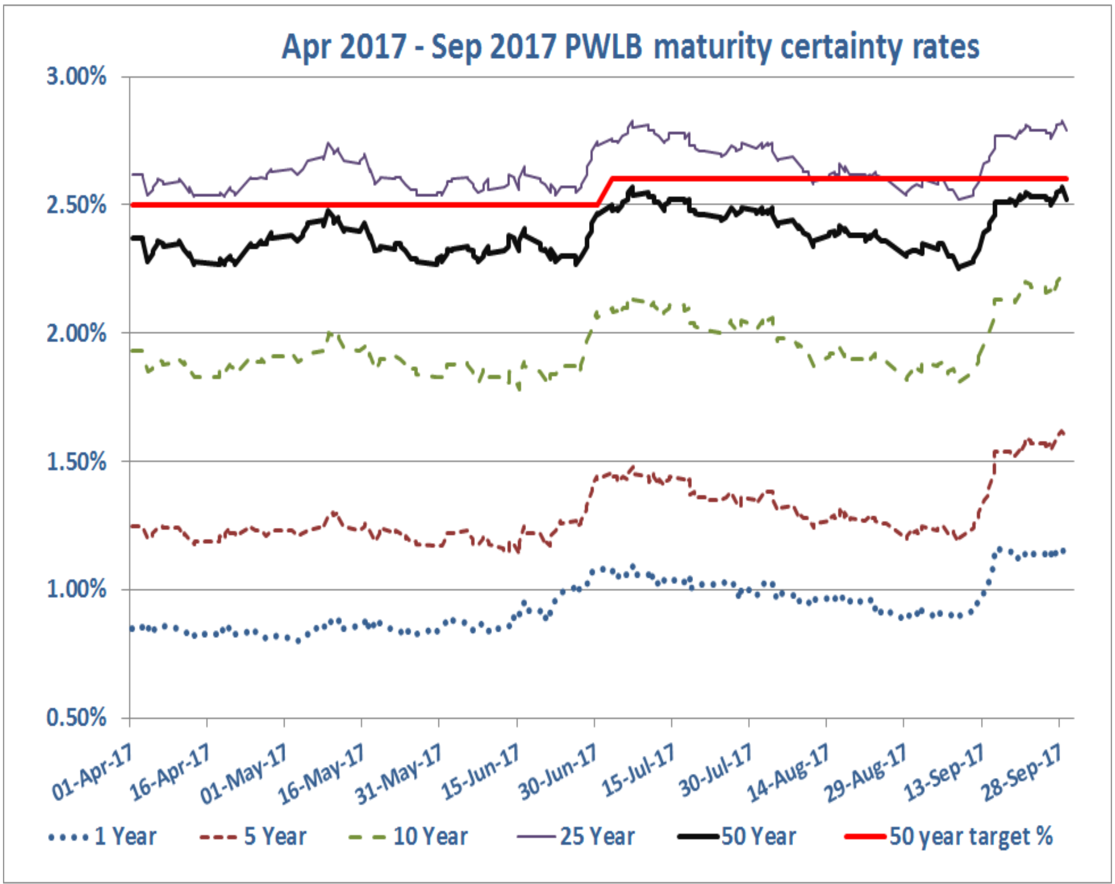
9. BORROWING

The Council's capital financing requirement (CFR) for 2017/18 is expected to be £30,429m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

Since the 30th September the council has undertaken borrowings of £16m and it is anticipated that further borrowing will be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30 September 2017



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	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	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

10. OTHER

MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies. The council has requested to opt up to a professional status as the criteria has been met and to increase the return.

11. RECOMMENDATION

To note the half-yearly performance against the approved investment strategy for 2017/18, the current treasury activity and the contents of the mid-year report.

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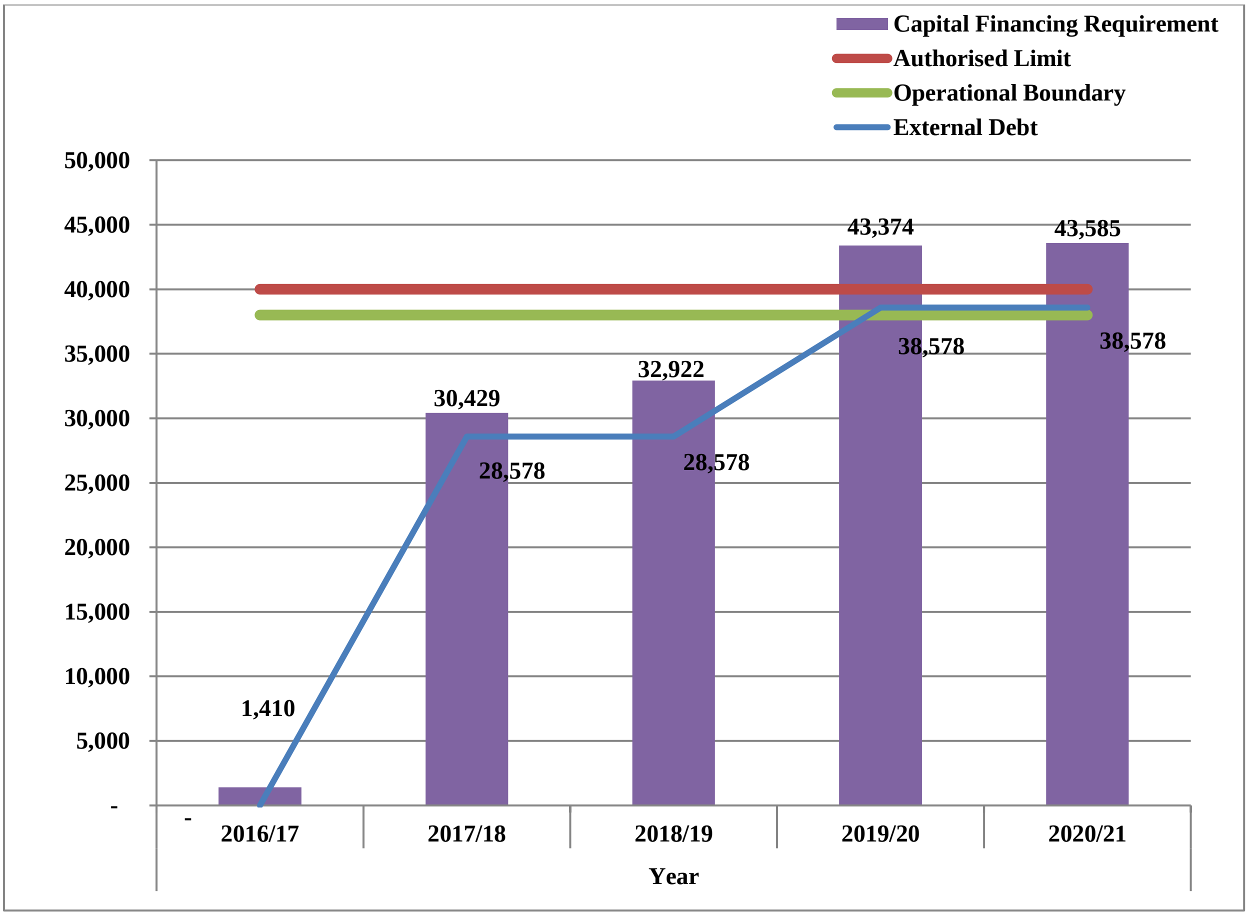
Background Papers

- The Prudential Code for Capital Finance in Local Authorities
- Prudential Code Interim Guidance
- Local Government Act 2003
- Prudential Indicators report to council February 2017
- Treasury Management Strategy report to council February 2017

12. APPENDIX 1

Comparison of borrowing parameters to actual external borrowing



13. APPENDIX 2

Approved countries for investments

Based on lowest available rating

AAA
- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Finland
- Hong Kong
- U.S.A.

AA
- Abu Dhabi (UAE)
- France
- U.K.

AA-
- Belgium
- Qatar

**correct data as at 30.09.2017*

14. GLOSSARY

Borrowing Requirement / Financing Need - The amount that the Council needs to borrow to finance capital expenditure and manage debt.

Call Account – A bank deposit account where funds can be withdrawn at any time.

Capital Financing Requirement (CFR) - The Capital Financing Requirement reflects the Council's underlying need to borrow for capital purposes. Thus, if new capital expenditure is incurred and not financed from sources other than by borrowing, the CFR will increase by the amount of that expenditure. Borrowing, up to the value of the CFR, may be either from internal cash balances or externally, such as from the PWLB.

CIPFA Code of Practice on Treasury Management - A code of practice issued by CIPFA detailing best practice for managing the treasury management function.

Consumer Price Index (CPI) – CPI is calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the RPI, such as unit trusts and stockbrokers fees, university accommodation fees and foreign students university tuition fees.

European Central Bank (ECB) – Sets the central interest rates in the European Monetary Union (EMU) area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.

Gilts - Also known as Gilt-edged Securities. Registered British Government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Limits for External Debt - A Prudential Indicator prescribed by the Prudential Code sets limits on the total amount of debt the Council could afford.

Liquidity - Access to cash that is readily available.

Minimum Revenue Provision (MRP) - The minimum amount, which must be charged to an authority's revenue account each year for the prudent repayment of debt.

Prudential Code for Capital Finance in Local Authorities - The capital finance system is based on the Prudential Code developed by CIPFA. The key feature of the system is that local authorities should determine the level of their capital investment and how much they borrow to finance that investment based on their own assessment of what they can afford.

Prudential Indicators - The key objectives of the Prudential Code are to ensure that the capital investment plans are affordable, sustainable and prudent. As part of this framework, the Prudential Code sets out several indicators that must be used to demonstrate this.

Public Works Loan Board (PWLB) - A central government agency which provides loans to local authorities and other prescribed institutions at interest rates slightly higher than those at which the Government itself can borrow.

Sovereign Debt Rating - Assessment of the international rating agencies of the likelihood that a particular country will default on its loans.

Yield - The rate of return on the current market value of an asset or liability, usually expressed as a percentage per annum. For example, today’s yield to maturity of a bond measures the total return to an investor in the bond, reflecting both the interest income over the life of the bond and any capital gain (or loss) from today’s market value to the redemption amount payable at maturity.