

## **ANNUAL TREASURY MANAGEMENT REVIEW 2017-18**

### **ANNEX 4: Report Guidance, abbreviations and definitions**

#### **Guidance**

##### Overall Treasury Position

The Overall Treasury Position table shows the council's debt and Capital Financing Requirement (CFR) split between its General Fund (GF) and Housing Revenue Account (HRA). The HRA is a 'ring-fenced' account for local authority housing.

The CFR represents the council's aggregate borrowing need (the element of the capital programme that has not been funded). The council's debt should not normally be higher than its CFR as explained in section 2 of Annex 1.

##### Borrowing Repayments

PWLB is the Public Works Loan Board which is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

The council has the following types of fixed rate loan with the PWLB:

- Annuity: fixed half-yearly payments to include principal and interest.
- Equal Instalments of Principal: equal half-yearly payments of principal together with interest on the outstanding balance.
- Maturity: half-yearly payments of interest only with a single payment of principal at the end of the term.

##### Financing Costs as a Proportion of Net Revenue Stream

This shows (separately for HRA and GF) the percentage of the council's revenue stream that is used to finance the CFR (net interest payable and Minimum Revenue Provision (MRP)).

MRP is the annual resource contribution from revenue which must be set against the CFR so that it does not increase indefinitely.

##### Borrowing and Investments

Borrowing limits – there are various general controls on the council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

General controls on the council's investment activity, to safeguard the security and liquidity of its investments, include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Limits on the council's fixed and variable interest rate exposures.
- Minimum size of the council's bank overdraft facility.

#### **Abbreviations and Definitions**

**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).