Report to:
Cabinet
Council
Audit and Corporate Governance Committee

Report of: Head of Finance

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To: Audit and Corporate Governance Committee on: 26 September 2013
To: Cabinet on: 17 October 2013
To: Council on: 24 October 2013

Treasury management outturn 2012/13

That Audit and Corporate Governance Committee:

1. notes the treasury management outturn report 2012/13 and
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.
3. make any comments and recommendations to cabinet as necessary.

That Cabinet:

Considers any comments from Audit and Corporate Governance Committee and recommends Council to:

1. Approve the treasury management outturn report for 2012/13;
2. Approve the actual 2012/13 prudential indicators within the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities. This report is to advise Councillors of the performance of the treasury management function (the management of our investments) for the financial year 2012/13. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management (revised) 2009.

Strategic objectives

2. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure resources are available to deliver our services and meet the council's other strategic objectives.

Background

3. The council's treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to council at the end of the financial year. The report covers the treasury activity for 2012/13.

4. The 2012/13 treasury management strategy was approved by council on 22 February 2012. This report provides details on the treasury activity and performance for 2012/13 against prudential indicators and benchmarks set for the year. Full council is required to approve this report.

5. An update on the economic conditions is in Appendix 'A'.

Icelandic bank default – Kaupthing Singer & Friedlander

6. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £1,999,829 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).

7. As a wholesale depositor, the Council is treated as an unsecured creditor in the administration process and ranks equally with all other unsecured creditors. The administrators intend to make further payments at regular intervals. The latest creditors' report now indicates that the estimated total amount to be recovered should be in the range of 84p to 86.5p in the pound. In total terms this would mean receiving between £2,209,901 and £2,275,671.

Treasury activities in 2012/13

Council investments as at 31 March 2013

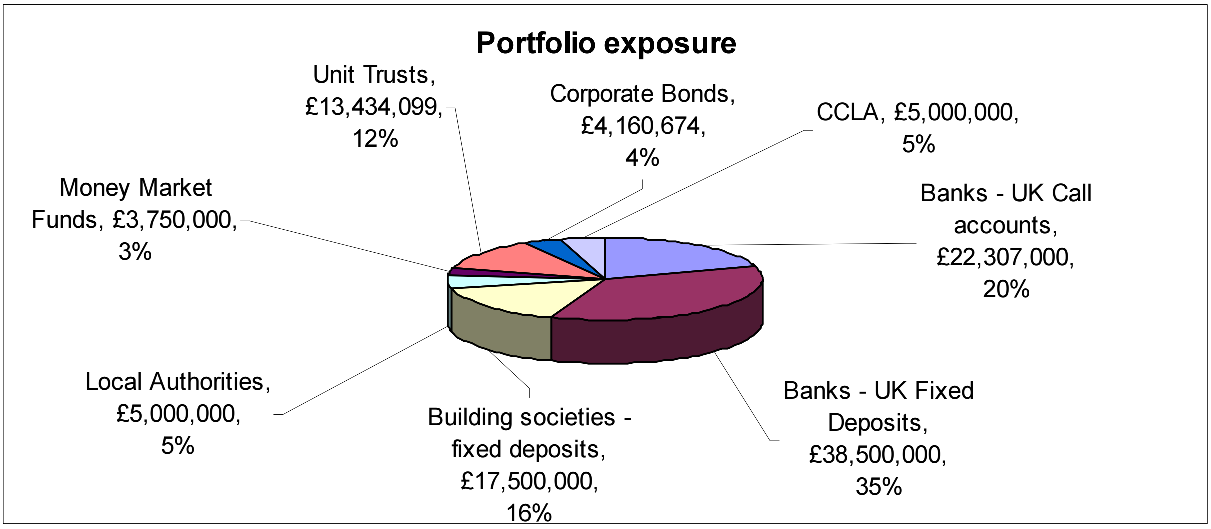
The Council continues to invest with regard for security, liquidity and yield, in that order. The Council's investments, analysed by age as at the end of 2012/13, is shown in table 1 below.

Table 1: maturity structure of investments as at 31 March 2013:	Total £000	% holding
Cash deposits:		
Call account	22,307	20%
Up to 1 month	4,000	4%
2 month	5,500	5%
3 month	6,000	5%
4 month	5,000	5%
5-6 Month	9,000	8%
7-12 Month	26,500	24%
1 -2 Year	2,000	2%
2-5 Year	3,000	3%
Kaupthing Singer & Friedlander	500	0%
Total cash deposits	**83,807**	**76%**
CCLA - property fund	5,000	5%
Equities	13,434	12%
Corporate bonds	4,161	4%
Money market funds	3,750	3%
Overall total	**110,152**	**100%**

N

ote: £110.152 million does not represent uncommitted resource the council has at its disposal. This amount includes council tax receipts held prior to forwarding to Oxfordshire County Council and Thames Valley Police, business rate receipts prior to payment to the government and committed capital and revenue balances. Details of the council's uncommitted balances are provided in the annual budget and council tax setting report.

A significant proportion of the portfolio is held in the form of fixed interest rate cash deposits. These provide some certainty over the investment return. The chart below shows in percentage terms how the portfolio is spread across the investment types:



Investment income

8. The total interest earned on investments during 2012/13 was £2.6 million, compared to the original estimate of £2.5 million, as shown in table 2 below:

Table 2: Investment interest earned by investment type			
	Interest earned		
Investment type	Annual Budget £000	Actual £000	Variation £000
Call accounts	43	130	87
Cash deposits < 1yr	1,057	567	(490)
Cash deposits > 1yr	705	1,196	491
MMF	30	29	(1)
Corporate Bonds	411	253	(158)
Equities	250	431	181
Transferred debt	10	7	(3)
	2,506	2,614	108

9. The variation in investment earnings of £108,000 above the original estimate for 2012/13 is due to a number of reasons:

- Interest received on unit trusts was £181,000 higher than forecast due to the overall increase in the value during the year.
- Interest earned on corporate bonds was £158,000 lower due to maturities that were not reinvested in corporate bonds
- Interest earned on cash deposits was £85,000 higher than forecast due to longer dated investments combined with higher interest rates achieved.

10. The actual average interest rate of return achieved for the year was 2.18 per cent.

Movement in the value of investments

11. Table 3 below shows the movement in value of the Council's investments at the end of the year.

Table 3: Investment portfolio values and movements.	2011/12 £m's	2012/13 £m's	Movement in Investments
Cost Values (£m's)			
Bank & Building Society deposits	87.22	87.56	0.34
CCLA	0.00	5.00	5.00
Equities	13.43	13.43	0.00
Corporate Bonds	4.27	4.16	(0.11)
	104.92	110.15	5.23

The value of investment deposits fluctuates throughout the year due to cash flow and spending patterns.

Performance measurement

12. A list of investments as at 31 March 2013 is shown in appendix B. All investments were with approved counterparties. The average level of investments held was £117 million and the average return on these investments is shown below in table 4. This shows in summary the performance of the council's investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's investment performance for each type of investment.

Table 4: Investment returns achieved against benchmark

	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.56%	1.86%	1.30%	3 Month LIBID
Equities	12.59%	11.68%	(0.91%)	FTSE All Shares Index
Corporate Bonds	0.50%	5.68%	5.18%	BoE base rate

Note: the benchmark return for unit trusts reflects the movement in capital value. All other benchmarks reflect earnings of investment income. The total actual return for the whole investment portfolio was 2.18 per cent.

13. Bank and building society deposits increased by £0.34 million during the year from £87.22 million as at 1 April 2012 to £87.56 million by 31 March 2013.

14. Returns on internally managed cash deposits are benchmarked against the three month LIBID rate, which was an average of 0.56 per cent for 2012/13. The performance for the year of 1.86 per cent exceeded the benchmark by 1.30 per cent.

15. In the first part of the financial year, it was difficult to place investments because of the continued financial uncertainty. Some good rates were achieved which contributed to the increase in investment income for the first half of the year. The government's Funding for Lending Scheme (FLS) was introduced in August 2012. As a result interest rates at which banks and building societies accepted deposits from local authorities dropped sharply. After this, investments were primarily held in call accounts which offered a better return than the market rates for deposits.

16. Local authority market rates for cash deposits have historically been around the same level as the three month LIBID rate. However, actual rates achieved are dictated by changeable factors, such as cash flow and the market demand for funds. For the purposes of providing comparative performance indicators, the market average rates of interest are shown in table 5.

Table 5: Cumulative performance against benchmark	Cumulative % returns
Actual	**2.18**
Benchmark - 3 Month LIBID	0.56
Variance - (Under)/Over benchmark	1.62
Industry average*	1.12
Variance - (Under)/Over industry benchmark	1.06

*Source: Sector - weighted average of 7 fund managers results covering 38 funds.

Equities

17. The council's holdings with the Legal & General (L&G) UK 100 Index Trust were purchased in 2000/01 at an initial cost of £10 million. This is an authorised unit trust incorporated in the United Kingdom and regulated by the FSA. The trust's objective is to track the capital performance of the UK equity market as represented by the FTSE 100 index.

18. The unit trusts are accounted for in the Council's financial statements at fair value[1]. The market value in April 2012 of £13.43 million rose significantly between July and November 2012, at which point the value exceeded the trigger point of £14m, when a disposal of £2m was made. Table 6 below shows the movement in capital value:

Table 6: Unit Trusts - Movement in capital		
	£	£
Market Value as at 31.3.13		13,434,099
Less:		
Dividends received in year	230,883	
Accrued dividends	199,911	
		(430,794)
Add:		
Disposal in year		2,000,000
Amended market value as at 31.3.13		15,003,305
Market value as at 1.4.12		13,434,631
Increase in Market Value in year		1,568,674

[1] Fair value: is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. In some cases this will be the amount paid for purchasing the investment. This may not always be the case, where there have been substantial transaction costs (as in an investment fund), or where interest payable does not reflect market rates or obligations (as in corporate bonds).

19. The value quoted in the statement of accounts includes adjustments for accrued interest. In order to assess the true unit trust performance an adjustment must be made to amend the market value[2]. Table 7 below shows the unit trust performance without the accounting adjustments required for the statement of accounts:

20. Unit trusts fluctuated quite a lot throughout the year, as volatility in the markets has driven investors to move to safer havens such as gilts.

Table 7: Unit Trust performance 1.4.12 - 31.3.13	
Increase in FTSE all share was	12.59%
Increase in Market Value	11.68%
Under-performance	(0.92%)
	£
Market Value 1.4.12	13,434,631
Plus 12.59% FTSE increase	1,691,420
Benchmark Market Value at 31.3.13	15,126,051
Market Value (amended at 31.3.13)	15,003,305
Under performance 1.4.12 to 31.3.13	**(122,746)**

20. Dividends received of £0.4 million were reinvested to acquire additional fund units. The unit trusts are benchmarked against the FTSE All Shares Index, which represents 98-99 per cent of the UK market capitalisation. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 630 constituents with a combined value of nearly £1.8 trillion. It is recognised as the main benchmark for unit trusts.

Corporate Bonds

21. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value[3] for 1 April 2012 was £4.1 million. The closing carrying value at 31 March 2013 was £4.1 million. The carrying values and market values for the corporate bonds are shown in table 8 below:

Table 8: Corporate bond values					
Bonds	Original cost £000's	Nominal Value £000's	Carrying Value as at 1.4.12 £000's	Carrying Value as at 1.4.13 £000's	Market value at 1.4.13
Santander 11.50%	422	270	335	323	318
RBS 9.625%	1,973	1,500	1,621	1,631	1,713
Halifax 11.5%	2,942	2,000	2,178	2,114	2,130
	5,337	3,770	4,134	4,068	4,161

22. The weighted average return on the Council's corporate bonds for 2012/13 was 5.68 per cent, this significantly exceeded the benchmark return.

23. The corporate bonds mature on dates between 2014 and 2017. Annual interest earned will remain the same for the whole period a bond is held. Table 9 below shows the redemption yield of the bonds if held until the redemption date.

Table 9: corporate bond redemption yields if held to maturity								
Bank	**Interest rate %**	**Original cost £000**	**Nominal value £000**	**Interest to date £000**	**Interest due £000**	**Redemption value £000**	**Redemption date**	**Redemption yield**
Santander	11.50%	422	270	310	117	270	04/01/2017	5.59%
RBS	9.63%	1,973	1,500	1,591	321	1,500	22/06/2015	6.20%
Halifax	11.50%	2,942	2,000	2,208	175	2,000	17/01/2014	5.25%

Money market funds (MMFs)

24. Money market funds are commercially run pooled investments. They work rather like unit trusts, but whereas the latter are based upon shares in companies, MMFs rely on loans to companies. As their pooled funds have a high total value, better rates of return can be obtained. Legislation allows authorities to access only those MMFs with the highest possible credit rating (AAA).

25. Access and liquidity, together with high security, have meant these funds have been used throughout the year. The Council currently invests in three MMFs and the amount held in each at the 31 March 2013 is shown below:

Table 10: Money market funds	**31/03/2013 £000**
Deutsche Bank	1,000
Blackrock	2,030
Goldman Sachs	720
	3,750

Other investments

PENSION FUND CONTRIBUTIONS

26. The Council made two contributions of £5 million to the Oxfordshire County Council pension fund, one in April 2005, the other in April 2008. The Council made these payments to reduce the ongoing contributions to the fund. Based on historical performance statistics, the return earned by the pension fund has been better than that

achieved by the Council. The pension fund is able to invest far larger amounts than we do and therefore can attract higher rates of return.

27. The value of the pension fund assets and liabilities is based on a series of actuarial assumptions. From 1 January 2013, the expected return and interest cost will be replaced with a single net interest cost, which will effectively set the expected rate of return equal to the pensions discount rate provided in the International Accounting Standard (IAS19). Based on the actuarial valuation as at the 31 March 2013, the long term rate of return per annum expected on the funds assets was 4.3 per cent (5.7 per cent as at 31 March 2012).

LAND AND PROPERY

28. The Council holds a portfolio of investment property which includes land, industrial estates, depots, garages and shops that are used on a commercial basis. These assets had a net book value of £15.9 million at 31 March 2013 (£16.3 million at 31 March 2012) and generated income (net of any direct service costs) of £1.0 million in 2012/13 (£0.9million in 2011/12).

29. The Economy, Leisure and Property (ELP) team manages investment property, ensuring that rent is collected and rent reviews are implemented. The performance of the investment property is assessed annually by ELP to determine if assets should be retained or disposed of and agree any actions to improve or enhance the value of the investment property holdings.

Treasury management limits on activity

30. The council is required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. During the year none of these limits were exceeded. These limits are shown in appendix C.

LIQUIDITY AND YIELD

31. The benchmarks for liquidity are set to ensure that sufficient funds can be accessed at short notice. These are targets and not limits. The weighted average life (WAL) in days sets a benchmark for how long investments should be made and the maximum benchmark is a target set to ensure that investments are not made for too long. For example the amount to be maintained for liquidity was £10m and the actual of £26m was above the benchmark. The larger balance on call is due to the more attractive interest rates earned following the introduction of the FLS, which lowered market rates. The actual for the WAL of 278 days exceeded the benchmark of 182.5 days and did not exceed the maximum of 1095 days.

32. The year end position against the original benchmarks approved in February 2012 is shown below:

Table 11: Risk-liquidity against benchmark		
	2012/13 Benchmark £m	2012/13 Actual £m
Bank overdraft	0.5	0
Short term deposits - minimum available within 1 week	10	26
	2012/13 Benchmark	2012/13 Actual
Weighted average life (days)	182.5	278.0
Weighted average life - maximum	1095.0	278.0

Debt activity during 2012/13

33. During 2012/13 there has been no need for the Council to borrow. The Council will continue to take a prudent approach to its debt strategy. The prudential indicators and limits set out in appendix C provide the scope and flexibility for the Council to borrow in the short-term up to the maximum limits, if such a need arose within the cash flow management activities of the authority, for the achievement of its service objectives.

Financial implications

34. A year ago, forecasts were that inflationary pressures would mean that interest rates would have to start rising towards the end of 2012. This has not happened and the current outlook for growth in the UK economy means interest rates are very low and are likely to remain so. The investments made in 2012/13 ensured that the council earned interest of £2.6 million, however from 2013, income is anticipated to reduce until market rates rise. This will be reflected in the council's 2014/15 budget and its medium term financial plan.

Legal implications

35. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the DCLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Conclusion

36. As at 31 March 2013, the Council's financial investments had a cost value of approximately £110 million. As a result of proactive management of investments held, and despite a fall in interest rates, during 2012/13 investments generated £2.614 million in investment income, which was £108,000 above the £2.506 million original budgeted estimate.

37. The financial year 2012/13 provided volatile conditions with regard to treasury management. Concerns for counterparty risk continue to present the council with a difficult environment to invest in. The main implications of these factors were:

- low investment returns and difficulty to forecast;

- increased counterparty risk – reduced choice of counterparties

- Interest rate exposure risk – due to investments held in short-term maturity periods.

38. Despite the continued uncertainty the overall investment performance was above the industry average for 2012/13. Investments were made in the year that provided a good return whilst maintaining security and liquidity.

Appendices

A – Economic update and interest rates
B – List of investments as at 31 March 2013
C – Prudential indicators
D – Glossary of terms

Appendix A

Economic Update and interest rates as at August 2013

A1. Growth in the UK economy remains weak. National debt is expected to rise above 100 per cent of GDP by 2015-16 and this resulted in the UK losing its AAA rating.

A2. Household financial conditions remain subdued. Job fears, inflation eroding disposable incomes, small or no pay increases are all factors contributing to consumers' ability to spend and overall living standards have fallen in real terms due to the sharp price rises relative to wages. Average real wages have fallen every month since June 2008. The squeeze on households' income will remain a critical factor in the economy over the next few years. Inflation is the main cause and will continue to have the greatest impact on living standards as real income will continue to decline. The slow recovery has meant that social security payments remain high and tax income is low.

A3. The Euro region suffered a further period of stress with Spain forced to officially ask for a bailout of its domestic banks. However, the ECB declared it would do whatever it takes to stabilise the Eurozone.

A4. The government's Funding for Lending Scheme (FLS) has been introduced to improve access to mortgages at lower rates. This has affected lenders need to borrow and money market rates have fallen considerably as a result. There will be a need to increase interest rates and reverse the government bond purchases at some stage, but it is unlikely to happen in the next 12 to 24 months.

A5. Investor demand in UK gilts as a 'safe haven' continues to keep yield increases down. Long term rates will eventually rise, mainly due to the fact that high volumes of gilts have been issued already in the UK and also in other major western countries.

A6. The interest rate forecast is based on the assumption that growth starts to recover in the next three years. If the EZ crisis worsens or low growth in the UK continues the base rate is likely to remain low for longer than this forecast.

A7. Concerns over investment counterparty risk remain because of the volatile economic conditions. However the council's current treasury management policy manages this risk down to a low level.

30. Interest rates

A8. The Bank of England changed its forecast significantly in the August Inflation report and upgraded its growth predictions to 1.4% in 2013 and 2.5% in 2014.

A9. Bank rate remained unchanged at 0.5% throughout the first half of 2012/13. The earlier forecast of a rate rise in Q4 of 2014 has been postponed until Q4 in 2016.

A10. Investment rates have remained flat with a range between 0.5 per cent to around 1.0 per cent for up to a year's maturity. This has dropped significantly as banks and building societies were offered further cheap cash supply via the FLS. The short term rates from one month to six months offer very little differential with six month rates ranging between 0.37 per cent and 0.55 per cent.

A11. Sector's forecast of the expected movement in medium term interest rates:

	NOW	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3 month LIBID	0.39	0.40	0.40	0.40	0.40	0.40	0.40	0.40
6 month LIBID	0.47	0.50	0.50	0.50	0.50	0.50	0.50	0.50
12 month LIBID	0.74	0.80	0.80	0.80	0.80	0.80	0.80	0.80
5 yr PWLB	2.20	2.20	2.20	2.20	2.20	2.20	2.30	2.40
10 yr PWLB	3.40	3.30	3.30	3.30	3.30	3.30	3.40	3.50
25 yr PWLB	4.30	4.20	4.20	4.30	4.30	4.40	4.50	4.60
50 yr PWLB	4.30	4.30	4.30	4.40	4.40	4.50	4.60	4.70
	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3 month LIBID	0.40	0.40	0.40	0.40	0.50	0.60	0.80	1.00
6 month LIBID	0.50	0.50	0.50	0.60	0.70	0.90	1.10	1.30
12 month LIBID	0.80	0.90	1.00	1.20	1.40	1.60	1.80	2.00
5 yr PWLB	2.50	2.60	2.80	2.90	3.00	3.20	3.30	3.40
10 yr PWLB	3.60	3.80	3.90	4.10	4.20	4.30	4.40	4.50
25 yr PWLB	4.70	4.80	4.90	5.00	5.00	5.10	5.10	5.20
50 yr PWLB	4.80	4.90	5.00	5.10	5.10	5.20	5.20	5.30

Appendix B

Investments as at 31 March 2013

Counterparty	Deposit type	Principal	Rate
Royal Bank of Scotland	Fixed	5,000,000	2.82%
Brentwood Borough Council	Fixed	2,000,000	2.16%
Lloyds TSB	Fixed	5,000,000	2.80%
Lloyds TSB	Fixed	5,000,000	2.80%
Barclays Bank plc	Fixed	2,000,000	2.60%
Bank of Scotland	Fixed	3,000,000	2.80%
Barclays Bank plc	Fixed	3,000,000	2.75%
Kingston upon Hull City Council	Fixed	1,000,000	1.90%
Royal Bank of Scotland	Fixed	1,500,000	3.25%
Royal Bank of Scotland	Fixed	1,500,000	3.10%
Barclays Bank plc	Fixed	2,000,000	3.75%
Barclays Bank plc	Fixed	1,500,000	2.60%
HSBC	Fixed	2,000,000	1.90%
Doncaster MBC	Fixed	2,000,000	1.05%
Bank of Scotland	Fixed	1,000,000	2.55%
National Counties Building Society	Fixed	1,500,000	1.80%
Nottingham Building Society	Fixed	2,000,000	1.75%
Saffron Building Society	Fixed	2,000,000	1.65%
Lloyds TSB	Fixed	4,000,000	2.85%
National Counties Building Society	Fixed	1,000,000	1.40%
Newcastle Building Society	Fixed	4,000,000	1.58%
West Bromwich Building Society	Fixed	1,000,000	1.30%
Royal Bank of Scotland	Fixed	2,000,000	1.55%
Manchester Building Society	Fixed	1,000,000	0.85%
West Bromwich Building Society	Fixed	3,000,000	1.05%
West Bromwich Building Society	Fixed	2,000,000	0.95%
Santander	Call	12,280,000	0.90%
Alliance & Leicester 30 Day Notice A/c	Call	1,139	0.90%
Royal Bank of Scotland	Call	2,298	0.85%
Royal Bank of Scotland	Call	10,024,724	1.05%
Goldman Sachs	MMF	720,000	Variable
Deutsche Bank	MMF	1,000,000	Variable
Blackrock	MMF	2,030,000	Variable
L&G Equities	Unit trust	13,434,099	Variable
Royal Bank of Scotland	Corporate bond	1,712,625	9.63%
Halifax	Corporate bond	2,129,800	11.00%
Santander	Corporate bond	318,249	11.50%
CCLA - property fund	Property fund	5,000,000	
KSF	Icelandic investment	500,171	
GRAND TOTAL		**110,153,104**	

Appendix C

Prudential indicators as at 31 March 2013		
	2012/13 Original estimate £m	**31.03.2013 Position £m**
Authorised limit for external debt		
Borrowing	5	0
Other long term liabilities	5	0
	10	**0**
Operational boundary for external debt		
Borrowing	2	0
Other long term liabilities	3	0
	5	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	84	100
Limits on variable interest rates	26	30
Maximum principal sums invested > 364 days		
Upper limit for principal sums invested > 364 days	5	70
Limit to be placed on investments to maturity		
1 - 2 years	2	70
2 - 5 years	3	50
5 years +	0	50
Investment portfolio spread		
Supranational bonds	15	0
Gilts	15	0
Equities*	10	13
Corporate bonds	10	4
Money market funds	20	4
Pooled bond fund	5	0
Property - direct investments	30	16
Property related pooled funds	10	5
External fund manager	20	0
Cash and certificates of deposit	85%	76%
Debt management account deposit facility	100%	0%

*Limit at time of purchase - Equities include accumulated dividends

Appendix D

GLOSSARY OF TERMS

31. **Basis Point (BP)**	32. 1/100th of 1%, i.e. 0.01%
33. **Base Rate**	34. Minimum lending rate of a bank or financial institution in the UK.
35. **Benchmark**	36. A measure against which the investment policy or performance of a fund manager can be compared.
37. **Bill of Exchange**	38. A financial instrument financing trade.
39. **Callable Deposit**	40. A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
41. **Cash Fund Management**	42. Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.
43. **Certificate of Deposit (CD)**	44. Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.
45. **Commercial Paper**	46. Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
47. **Corporate Bond**	48. Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
49. **Counterparty**	50. Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
51. **CDS**	52. Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the

	swap.
53. **CFR**	54. Capital Financing Requirement.
55. **CIPFA**	56. Chartered Institute of Public Finance and Accountancy.
57. **CLG**	58. Department for Communities and Local Government.
59. **Derivative**	60. A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
61. **DMADF**	62. Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
63. **ECB**	64. European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is the 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.
65. **Equity**	66. A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
67. **Forward Deal**	68. The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
69. **Forward Deposits**	70. Same as forward dealing (above).
71. **Fiscal Policy**	72. The government policy on taxation and welfare payments.
73. **GDP**	74. Gross Domestic Product.
75. **Gilt**	76. Registered british government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
77. **LIBID**	78. London inter-bank bid rate
79. **LIBOR**	80. London inter-bank offered rate
81. **Money Market Fund**	82. A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in a MMF.
83. **Monetary Policy Committee**	84. Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the

(MPC)	committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
85. **Other Bond Funds**	86. Pooled funds investing in a wide range of bonds.
87. **PWLB**	88. Public Works Loan Board.
89. **QE**	90. Quantitative Easing.
91. **Retail Price Index**	92. Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
93. **Sovereign Issues (Ex UK Gilts)**	94. Bonds issued or guaranteed by nation states, but excluding UK government bonds.
95. **Supranational Bonds**	96. Bonds issued by supranational bodies, e.g. European Investment Bank. The bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.
97. **Treasury Bill**	98. Treasury bills are short-term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.