Council

South Oxfordshire District Council

Listening Learning Leading

Report of Head of Finance

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Wards affected: All

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To: Council

Dates: 14 December 2023

Treasury Management Outturn 2022/23

Recommendations

That Council:

(a) approve the treasury management outturn report 2022/23; and

(b) approve the actual 2022/23 prudential indicators within the report.

Purpose of report

1. This report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the councils' prudential indicators are reported to the councils at the end of the year. The report provides details of the treasury activities for the financial year 2022/23.

2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management.

Corporate objectives

3. Effective treasury management is required to help the councils meet their strategic objectives.

Background

4. The councils' 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 the councils at the end of the financial year.

5. This report provides details on the treasury activity and performance for 2022/23 against prudential indicators and benchmarks set for the year in the 2022/23 Treasury Management Strategy (TMS), approved by each council in February 2022. Each council is required to approve this report.

6. Link Asset Services are the councils' retained treasury advisors.

7. There are three types of investment, the performance of which is covered in this report

    a. True treasury investments – these are investments for the management of temporary cashflow balances. These include loans to other local authorities or approved financial institutions. It also includes longer-term investments in externally managed pooled funds such as CCLA Property Fund.

    b. Non-treasury loans – these are loans to third parties, which earn a return, but they do not fall under the strict definition of a treasury investment.

    c. Direct property investments - both councils have investment properties let on commercial basis. The primary purpose of holding these assets is for investment purposes and they are not part of regeneration schemes.

8. The councils continue to invest with regard for security, liquidity and yield, in that order.

Economic conditions and factors effecting investment returns during 2022/23

9. At the start of the financial year UK Bank Base Rate was 0.75 per cent following three consecutive interest rate rises in the last quarter of 2021/22. At each of the Monetary Policy meetings during 2022/23 interest rates were further increased by 0.25, 0.50 or 0.75 per cent with Base Rate reaching 4.25 per cent by year-end. [At the time of writing (July 2023) rates have increased further to five per cent.]

10. Link Asset Services provide a regular forecast of interest rates, the latest forecast is reproduced in **appendix A**. The forecast made on 26 June 2023, sets out a view that both short and long-dated interest rates will be elevated for a while, as the Bank of England 'seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market'.

11. This forecast shows that Base Rate is expected to peak at 5.5 per cent in September 2023 before falling back to 5.25 per cent around June 2024. Rates are expected to continue to reduce each quarter until September 2025 and reach 2.5 per cent during the last quarter of
2025/26.

12. The Treasury Management Strategy makes clear that investment priority is given to the security of principal in the first instance. As a result, investments have only been made with counterparties of high credit quality and relatively low risk.

13. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

14. In April Bank Rate was 0.75 per cent, (0.5 per cent above the budget forecast), moving up in stepped increases it, reached 4.25 per cent by the end of the financial year. The expectation for interest rates within the treasury management strategy for 2022/23 was that Bank Rate would increase from 0.25 per cent in April 2022 to 0.75 per cent by March 2023.

15. Interest rate forecasts initially suggested only gradual rises in rates during 2022/23 but by August it had become clear that inflation was moving up towards 40 year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, increasing Bank Rate at each meeting. The CPI measure of inflation remained above 10 per cent throughout the second half of 2022-23, falling to 8.7 per cent in April 2023. It is currently 7.9 per cent and is expected to fall back towards four per cent by the end of the financial year, however there remain significant risks to the central forecast.

16. The increases in Base Rate from the start of the financial year allowed both councils to place deposits at above budgeted interest rates and generate investment returns above the budget forecasts. However, as the pace of increase was unexpected existing longer-term deposits placed prior to the start of the financial year pulled the average portfolio return down below the market rate benchmark.

Summary of investment activities during 2022/23

17. Prudential limits (security). Both councils are required by the Prudential Code to report on the limits set each year in the TMS. 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 may impair the opportunities to reduce costs/improve performance. These limits are shown in **appendix B**.

18. Yield - the performance of the two councils is summarised in the tables below.

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	177,022	15,000	192,022	8,207	200,227
2	Budgeted investment income	1,154	623	1,777		
3	Actual investment income	3,166	623	3,789	418	4,207
4	surplus/(deficit) (3) - (2)	2,012	0	2,012		
5	Rate of return (3) ÷ (1)	1.79%	4.15%	1.97%	5.09%	2.10%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	166,887	5,070	171,956
2	Budgeted investment income	489		
3	Actual investment income	2,574	237	2,811
4	surplus/(deficit) (3) - (2)	2,085		
5	Rate of return (3) ÷ (1)	1.54%	4.68%	1.63%

19. Both South and Vale exceeded treasury budgeted investment income this year in terms of actual income against budget, and rates of return on their in-house managed portfolios. This was a result of interest rates increasing above the rates anticipated in the budget.

20. Detailed reports on the treasury activities for each council and performance for 2022/23 against prudential indicators and benchmarks set for the year are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

21. A detailed list of both councils' treasury investments as at 31 March 2023 is shown in **appendix E**.

Debt activity during 2022/23

22. During 2022/23, there has not been a need for either council to borrow and both councils continue to take a prudent approach to their debt strategy. The prudential indicators and limits set out in **appendix B** provide the scope and flexibility for the council to borrow in the short-term, if such a need arose, for cash flow purposes to support the council(s) in the achievement of their service objectives.

Climate and ecological impact implications

23. There are no climate or ecological implications arising from this report, however the Council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration in key documents and processes (such as the procurement strategy), and this will become more evident in future decision making. As opportunities to support the climate ambitions of the Councils arise, they will be considered and appropriately weighted to include any climate or ecological impacts.

24. In order to comply with treasury management professional guidance, the Council's investments must prioritise security, liquidity and yield in that order. Environmental, Social and Governance (ESG) factors represent a fourth consideration in the decision-making process and whilst this is something that the councils are exploring it is in the context of the need to comply with the priorities outlined in the guidance.

25. The councils had no direct investments during the financial year with companies engaged in environmentally harmful activities. The councils' externally managed pooled investment fund managers are founding members of the Net Zero Asset Managers Initiative.

Financial implications

26. The treasury investments arranged in 2022/23 generated £3.2 million of investment income for South during the year and £2.6 million for Vale. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances or supports the in-year expenditure programmes.

Legal implications

27. There are no significant legal implications. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

Risks

28. During the financial year, the Council's operated within the treasury limits and Prudential Indicators set out in their Treasury Management Strategies approved by Council in February 2022.

Conclusion

29. Despite a turbulent operating environment, both councils continued to make investments during 2022/23 that maintained security and liquidity and took advantage of the increases in interest rates in line with the parameters of their respective treasury management strategies.

Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2022/23 – Councils in February 2022.

Appendices

A. Interest rate forecasts
B. Prudential limits
C. SODC – Treasury activities 2022/23
E. Treasury investments as at 31 March 2023
F. Glossary of terms

Appendix A

Link Group Interest Rate Forecasts

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

Appendix B

Prudential limits (indicators) as at March 2023

Prudential indicators as at 31 March 2023	Vale		South	
	Original estimate £m	**Actual position £m**	**Original estimate £m**	**Actual position £m**
Authorised limit for external debt				
Borrowing	30	0	30	0
Other long-term liabilities	5	0	5	0
	35	0	**35**	**0**
Operational boundary for external debt				
Borrowing	25	0	25	0
Other long-term liabilities	5	0	5	0
	30	**0**	**30**	**0**
Investments				
Interest rate exposures				
Limits on fixed interest rates %	100%	92%	100%	78%
Limits on variable interest rates £k	100	11	100	38
Maximum principal sums invested > 364 days				
Upper limit for principal sums invested > 364 days £k	45	24	65	11
Limit to be placed on investments to maturity				
1 - 2 years	NA	NA	NA	NA
2 - 5 years	NA	NA	NA	NA
5 years +	NA	NA	NA	NA

Prudential indicators – explanatory note

Debt

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short-term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Appendix C

SODC treasury activities in 2022/23

Council treasury investments as at 31 March 2023

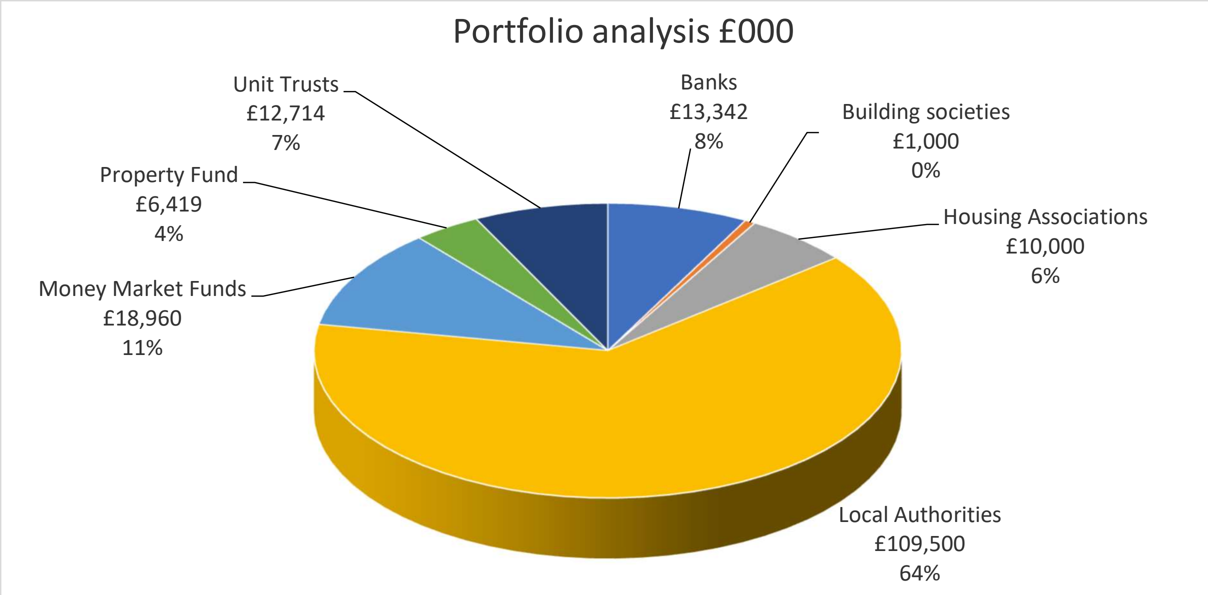
The council's treasury investments, analysed by maturity as at 31 March 2023 were as follows:

Table 1: Maturity structure of investments at 31 March 2023	£000	% holding
Call	342	0%
Money market fund	18,960	11%
Cash available within 1 week	19,302	11%
Up to 3 months	71,500	42%
4-6 months	31,000	18%
6 months to 1 year	20,000	12%
Over 1 year	11,000	6%
Total cash deposits	**152,802**	**89%**
CCLA Property Fund	6,419	4%
Equities	12,714	7%
Total investments	**171,935**	**100%**

The majority of the funds invested were held in the form of fixed interest rate and term cash deposits. These provide some certainty over the investment return.

The investment profile is organised to ensure sufficient liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities.

The chart below shows in percentage terms the portfolio above analysed by counterparty type:



Treasury investment income

The total income earned on investments during 2022/23 was £3.166 million, compared to the original budget of £1.154 million, as shown in table 2 below:

Table 2: Investment interest earned by investment type

Investment type	Annual Budget £000	Actual Interest £000	Variation £000
Fixed deposits and Short-term liquidity accounts	524	2,474	1,950
Unit Trust	352	414	62
CCLA property fund	278	277	(1)
	1,154	3,165	2,011

The actual return achieved was £2.01 million more than the original budget. This was principally due to:

- Interest earned on cash deposits being £1.95 million higher than forecast in the 2022/23 budget, due to UK interest rates rising much quicker and to a higher level than anticipated when the budget was set.

- Dividends accumulated by the Unit Trust were £62,000 above budget due to an improvement in the FTSE All-Share Index during 2022/23. The Unit Trust objective is to provide growth by investing in shares that closely track the performance of the Index.

- Dividends received from the CCLA Property Fund were almost as forecast. However, the total return of the fund was negative due to a reduction in capital value. The Fund's unit price fell by 16.5 per cent.

The actual average rate of return on internally managed treasury deposits for the year was 1.68 per cent (1.14 per cent in 2021/22).

Performance measurement

A list of treasury investments as at 31 March 2023 is shown in **appendix E**. All investments were with approved counterparties. The average level of investments held was £177 million. Table 3 below shows in summary the performance of the council's treasury investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's treasury investment performance for each type of investment.

The £177 million does not represent the council's usable, cash backed reserves, which at 31 March 2023 totalled £128 million, including capital grants received in advance of spend. The difference represents the council's working capital balance and timings of cashflows.

Table 3: Treasury investment returns achieved against benchmark

	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Deposits & Short term liquidity funds - internally managed	2.72%	1.68%	(1.04%)	3 Month SONIA
Unit Trust *	2.36%	2.31%	(0.05%)	FTSE All Shares Index
Property Fund *	(14.11%)	(13.27%)	0.84%	IPD balanced property unit trust index

* Returns include income and capital growth

Note: the benchmark return for unit trusts and CCLA includes the movement in capital value. All other benchmarks reflect earnings of treasury investment income.

Daily cashflow balances are managed in-house with the portfolio of fixed-term deposits, call accounts and money market fund balances benchmarked against the three-month SONIA rate, which was an average of 2.72 per cent for 2022/23. The performance for the year of 1.68 per cent fell below the benchmark by 1.04 per cent as existing deposits prior to the unexpected pace of the rise in market rates brought down the average portfolio returns.

The CCLA property fund initial principal investment of £5 million (March 2013) decreased in value during 2022/23 from £7.6 million to £6.4 million. Dividends received in the year totalled £0.28 million. Both the capital appreciation and the interest earned are included in the performance of -13.27 per cent achieved above. The capital loss is however not realised and so for comparison purposes, the actual rate of return of income received during the year net of fees is 3.8 per cent.

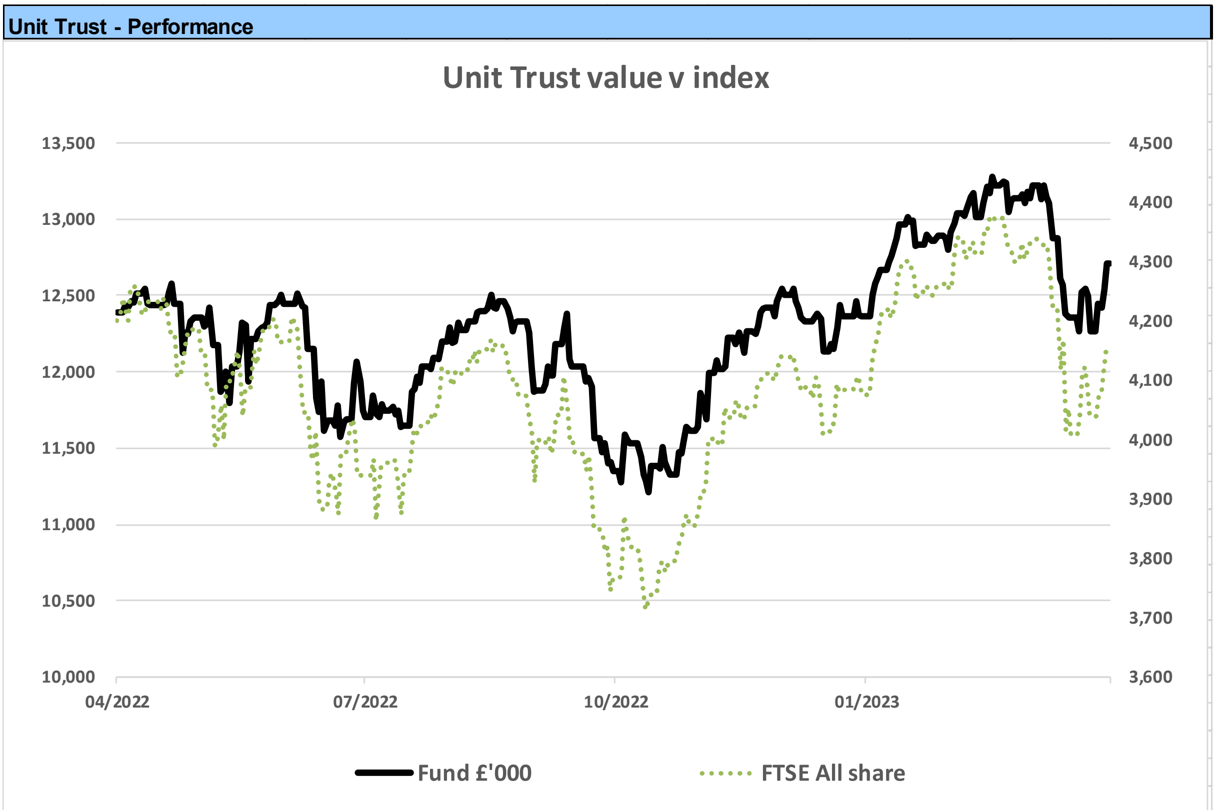
Equities

The council’s holdings with the Legal & General (L&G) UK 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 provide growth by tracking the capital performance of the UK equity market as represented by the FTSE All-Share index.

The index is comprised of shares in all eligible companies listed on the London Stock Exchange’s main market. The Fund seeks to replicate as closely as possible the constituents of the benchmark index, by holding all, or substantially all, of the assets comprising the FTSE All-Share Index in similar proportions to their index weightings. It may also hold shares in companies which are reasonably expected to become part of the Benchmark index in the near future. At 31March 2023 the UK Index Trust Fund comprised 582 holdings.

The Fund performance as shown in Table 3 is comprised of income and capital growth. The capital growth performance is based on volatile market values and is unrealised. The price of units in the fund ranged from a low price of 325.4p per unit on 13 October 2022 to a financial year high price of 385.3p per unit on 16 February 2023.

The chart below shows the performance of the Unit Trust during 2022/23



The Fund invests in UK companies and aims to replicate the FTSE All Share with returns broadly in line with the performance of the Index. The constituents of the Fund will not always exactly match the Index and therefore performance may be positively or negatively impacted by the constituent and weighting variations and other factors such as trading costs for example.

The performance of the fund over the past five years compared to the benchmark index is summarised in table 4 below.

Table 4: Unit Trust returns achieved against benchmark					
12 months to 31 March	**2023**	**2022**	**2021**	**2020**	**2019**
	%	%	%	%	%
L&G UK Index Trust	2.31	12.88	27.63	-18.84	5.87
Index	2.36	13.07	28.77	-19.06	6.01
Relative to Index	-0.05	-0.19	-1.14	0.22	-0.14

The council holds accumulation units where income attributable to the unit class is automatically reinvested in the in the Fund and is reflected in the price of each accumulation unit, rather than being distributed to unit holders. Consequently, no cash distribution payments were received during the year. Officers monitor the performance of the unit trust holding on a regular basis.

Non-treasury investment loan

During 2013/14, the council entered into a secured loan agreement with SOHA to enable them to finance affordable housing schemes. The Council lent £15 million over 20 years at a fixed rate of 4.15 per cent. Interest is paid quarterly and during 2022/23, the council received £0.6 million.

Land and property

The Council holds a portfolio of investment properties, which includes land, depots, garages, and shops that are let on a commercial basis. These assets are valued on an annual basis and had average net book value of £8.2 million during 2022/23 (£8 million 2021/22). Income generated was £0.42 million in 2022/23 (£0.49 million in 2021/22) giving a gross rate of return of 5.09 per cent.

Due to movement in property values and the exclusion of whole life costs, these rates of return should not be taken as a direct comparison with the performance of other classes of investment.

Liquidity and yield

The council uses short-term investments to meet daily cash-flow requirements and aims to invest a proportion of the portfolio in longer-term instruments where possible.

The average daily balance held in short-term notice accounts during 2022-23 was £22.9 million.

Appendix E

South Oxfordshire District Council investments as at 31 March 2023

Counterparty	Deposit Type	Maturity Date	Principal	Rate
Places for People	Fixed	03-Apr-23	5,000,000.00	1.00%
Places for People	Fixed	10-May-23	2,000,000.00	1.00%
Places for People	Fixed	23-Jun-23	3,000,000.00	1.00%
Blaenau Gwent CBC	Fixed	06-Apr-23	3,000,000.00	0.28%
Thurrock BC	Fixed	18-Apr-23	5,000,000.00	0.75%
National Counties Building Society	Fixed	28-Apr-23	1,000,000.00	1.63%
Thurrock BC	Fixed	28-Apr-23	3,000,000.00	0.75%
Thurrock BC	Fixed	19-May-23	5,000,000.00	0.75%
Blaenau Gwent CBC	Fixed	26-Jun-23	5,000,000.00	0.50%
Goldman Sachs International Bank	Fixed	01-Sep-23	4,000,000.00	4.05%
Goldman Sachs International Bank	Fixed	12-Sep-23	2,000,000.00	4.04%
Uttlesford District Council	Fixed	12-Sep-23	7,000,000.00	3.00%
National Bank of Kuwait	Fixed	15-Sep-23	3,000,000.00	4.15%
London Borough Of Haringey	Fixed	26-Sep-23	5,000,000.00	3.00%
Craven District Council	Fixed	05-May-23	2,000,000.00	3.45%
Cheshire West & Chester Council	Fixed	20-Oct-23	1,000,000.00	4.05%
North Lanarkshire Council	Fixed	13-Nov-23	5,000,000.00	4.00%
Rushmoor Borough Council	Fixed	16-May-23	3,000,000.00	3.55%
Goldman Sachs International Bank	Fixed	17-Nov-23	3,000,000.00	4.53%
Aberdeen City Council	Fixed	02-Jun-23	6,000,000.00	3.30%
Surrey County Council	Fixed	08-Jun-23	5,000,000.00	3.55%
Highland Council	Fixed	09-May-23	4,000,000.00	3.19%
Surrey County Council	Fixed	13-Jun-23	5,000,000.00	3.40%
Wirral Borough Council	Fixed	19-Apr-23	3,000,000.00	3.48%
Goldman Sachs International Bank	Fixed	19-Jan-24	1,000,000.00	4.35%
Highland Council	Fixed	24-May-23	3,000,000.00	3.71%
Cornwall Council	Fixed	28-Apr-23	3,000,000.00	3.57%
Rushmoor Borough Council	Fixed	31-Jul-23	5,000,000.00	3.90%
Birmingham City Council	Fixed	29-Aug-23	5,000,000.00	4.20%
West Dumbartonshire Council	Fixed	12-Mar-24	5,000,000.00	4.70%
Dorset Council	Fixed	16-Jun-23	3,000,000.00	3.92%
London Borough of Southwark	Fixed	18-Mar-24	5,000,000.00	4.45%
Cornwall Council	Fixed	05-Apr-23	2,500,000.00	4.30%
Gravesham Borough Council	Fixed	24-Apr-24	3,000,000.00	1.00%
Gravesham Borough Council	Fixed	31-Mar-27	3,000,000.00	1.00%
London Borough of Barking & Dagenham	Fixed	13-Apr-25	5,000,000.00	0.30%
Santander Reserve Account	Call		242,579	variable
Royal Bank of Scotland	Call		99,295	variable
Goldman Sachs	MMF		18,395,000	variable
Blackrock	MMF		565,000	variable
L&G Equities	Unit Trust		12,714,020	variable
CCLA	Property Fund		6,418,609	variable
TOTAL			171,934,503	

Appendix F

GLOSSARY OF TERMS

Basis point (BP)	1/100th of 1%, i.e. 0.01%
Base rate	Minimum lending rate of a bank or financial institution in the UK.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A non-interest-bearing written order used primarily in international trade that binds one party to pay a fixed sum of money to another party at a predetermined future date.
Callable Deposit	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.
[Cash] Fund Management	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.
Certificate of Deposit (CD)	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.
Commercial Paper	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.
Corporate Bond	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.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
Credit Default Swap (CDS)	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.

Capital Financing Requirement (CFR)	The amount the council has to borrow to fund its capital commitments.
CIPFA	Chartered Institute of Public Finance and Accountancy.
CLG	[Department for] Communities and Local Government.
Derivative	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.
Debt Management Account Deposit Facility (DMADF)	Deposit Account offered by the Debt Management Office, guaranteed by the UK government
European Central Bank (ECB)	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.
European and Monetary Union (EMU)	The Economic and Monetary Union (EMU) is an umbrella term for the group of policies aimed at converging the economies of all member states of the European Union.
Equity	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 appreciation. Equity values can decrease as well as increase.
Forward Deal	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.
Forward Deposits	Same as forward dealing (above).
Fiscal Policy	The government policy on taxation and welfare payments.
GDP	Gross Domestic Product.
[UK] Gilt	Registered UK government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
LIBID	London inter-bank bid rate (phased out in December 2021)
LIBOR	London inter-bank offered rate (phased out in December 2021)

Money Market Fund	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.
Monetary Policy Committee (MPC)	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% in two years time from the date of the monthly meeting of the committee. Their secondary target is to support the government in maintaining high and stable levels of growth and employment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PWLB	Public Works Loan Board.
QE	Quantitative Easing.
Retail Price Index	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.
SONIA	Sterling Overnight Index Average (SONIA) is the effective interest rate paid by banks for unsecured transactions in the UK sterling market. The rate is published by the Bank of England.
Sovereign Issues (excl UK Gilts)	Bonds issued or guaranteed by nation states, but excluding UK government bonds.
Supranational Bonds	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.
Treasury Bill	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.