AUD070
FOR DECISION
WARD(S): GENERAL

AUDIT COMMITTEE

24 September 2013

TREASURY MANAGEMENT STEWARDSHIP REPORT FOR 2012/13

REPORT OF CHIEF FINANCE OFFICER

Contact Officer: Alan Goard Tel No: 01962 848117 email: agoard@winchester.gov.uk

RECENT REFERENCES:

CAB2284 – Treasury Management Strategy 2012/13 and 2011/12 Revision, 8 February 2012

AUD037 – Treasury Management Policy & Practices, 25 September 2012

AUD047 – Treasury Management Mid Year Review 2012-13, 4 December 2012

EXECUTIVE SUMMARY:

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, this report provides detail of the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices, for the year 2012/13.

RECOMMENDATIONS:

That the Audit Committee approves the Treasury Management Stewardship Report for 2012/13 and the actual Prudential Indicators provided at Appendix A.

AUDIT COMMITTEE

24 September 2013

TREASURY MANAGEMENT STEWARDSHIP REPORT FOR 2012/13

1 Introduction

1.1 The Council's Treasury Management Strategy for 2012/13 (CAB2284 refers) is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity for the forthcoming financial year.

1.2 The Code also states the following minimum requirements:

The organisation will receive:

- An annual report on the strategy and plan to be pursued in the coming year;
- A mid-year review;
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

1.3 The full Council approves the Strategy and Plan annually and consideration of the mid-year review and stewardship report is delegated to the Audit Committee.

1.4 Treasury management is defined by the CIPFA Code of Practice on Treasury Management 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.".

1.5 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2 Economic Background

2.1 Over the year the global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing

2.2 Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target

2.3 The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction an additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

2.4 The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015/16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015/16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

2.5 Europe: The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were calmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes underway in Euroland economies, most of which contracted in Q4 2012.

2.6 Gilt Yields and Money Market Rates: Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the Debt Management Office would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government

2.7 The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs. One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month LIBID rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

3 The Borrowing Requirement and Debt Management

3.1 ***Borrowing during 2012/13 & PWLB Certainty Rate*** - the Certainty Rate was introduced by the PWLB in November 2012, allowing the Council to borrow at a reduction of 20bps on the Standard Rate. However, there was no new borrowing during the year and the Council's overdraft facility was not used.

3.2 Borrowing Activity in 2012/13

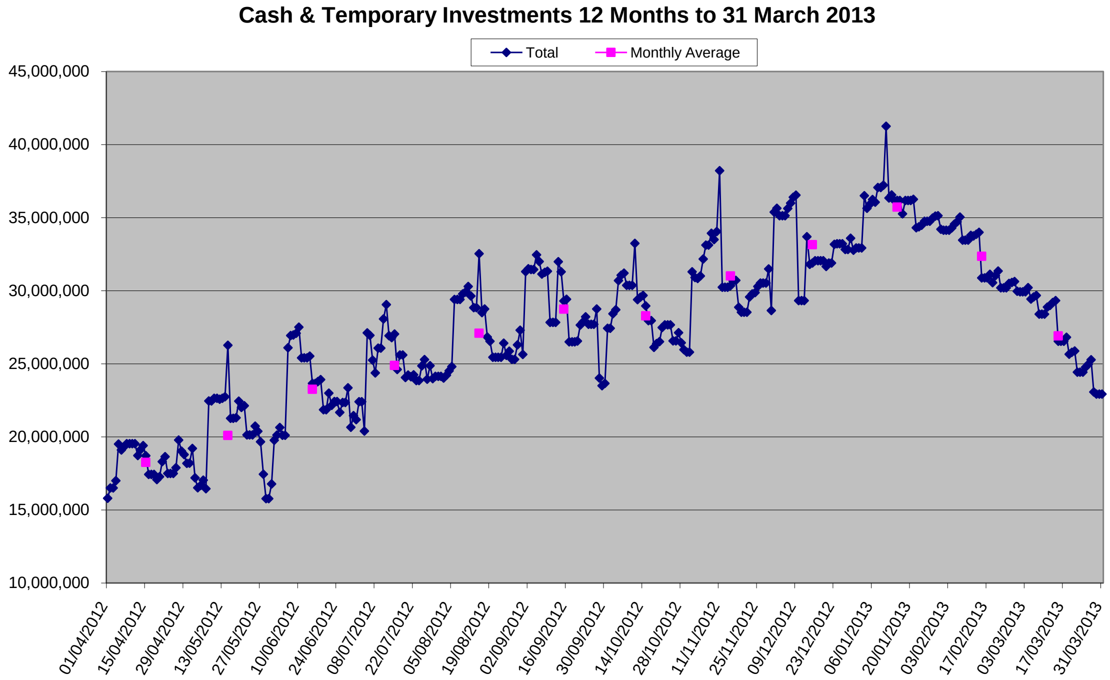
	Balance at 01/04/2012	New Borrowing	Debt Maturing	Debt Prematurely Repaid	Balance at 31/03/2013	Avg Rate %/ Avg Life (yrs)
	£m	£m	£m	£m	£m	
Capital Financing Requirement (CFR)	164.5				162.4	
Short Term Borrowing	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowing	156.7	0.0	0.0	0.0	156.7	24 years @ 3.30%
TOTAL BORROWING	156.7	0.0	0.0	0.0	156.7	
Other Long Term Liabilities	2.4	0.0	(0.3)	0.0	2.1	7 years @ 2.16%
TOTAL EXTERNAL DEBT	159.1	0.0	(0.3)	0.0	158.8	

The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2013 was £162.4m. The Council's borrowing requirement at the yearend was £158.8m.

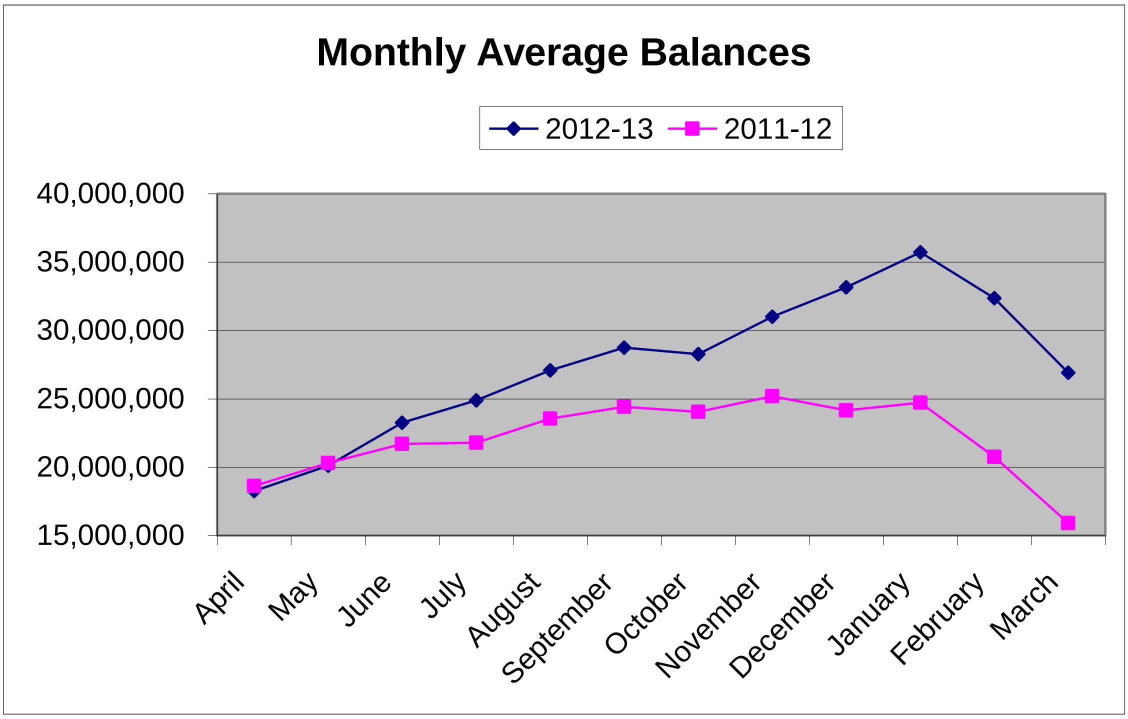
£1.7m of capital expenditure was funded from internal resources in 2012/13.

4 Investment Activity

4.1 The Guidance on Local Government Investments gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The average daily balances that were held during 2012/13 are shown below:



Year on year monthly averages



The main sources of the increased balances at the year end, compared to last year (2011-12) were:-

£5.2 m Housing Revenue Account
£2.4m General Fund reserves
£1.3m Non Domestic Rates pool balance
£1.1m Benefits grants* balance
£0.8m Developers Contributions for Social Housing

* Housing & Council Tax Benefits, the difference between cash received per interim grant claims from Central Government and the amount due per the final year end grant claim

4.2 Investment activity was as follows:

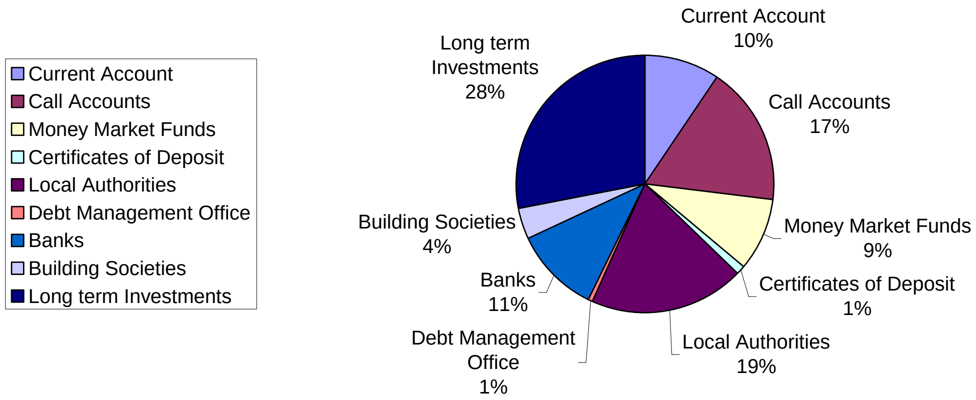
	Balance at 01/04/2012 £000s	Investments Made £000s	Maturities £000s	Balance at 31/03/2013 £000's	Increase/ (decrease) in Investments £000's
Short Term Investments					
Call Accounts	0	11,000	4,000	7,000	7,000
Pooled Funds	1,750	63,450	60,900	4,300	2,550
Certificates of Deposit	0	2,000	1,000	1,000	1,000
Term Deposits					
Local Authorities	9,000	22,000	28,000	3,000	(6,000)
Debt Management Office	500	27,500	28,000	0	(500)
Banks	0	16,000	13,000	3,000	3,000
Building Societies	0	13,000	11,000	2,000	2,000
Long Term Investments	1,000	0	0	1,000	0
TOTAL INVESTMENTS	12,250	154,950	145,900	21,300	9,050

Other Interest Bearing	Balance at 01/04/2012 £000s	Cash Received * £000s	Cash Paid * £000s	Balance at 31/03/2013 £000's	Increase/ (decrease) in Balance £000's
Current Account	1,024	329,493	327,887	2,630	1,606
Total External Balances	13,274	183,593	172,937	23,930	10,656

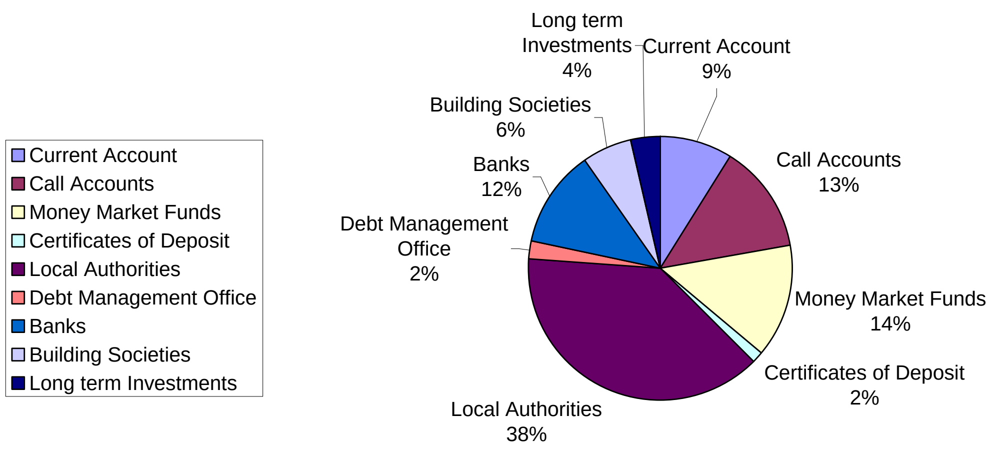
* Cash Received excludes investments matured, Cash Paid excludes investments made

4.3 Analyses of average balances & interest receivable for the 12 months to 31 March 2013

% Income per Sector



Average Investment per Sector



	Average Holding £000's	£000's	Interest %	PY %	Share of Total Investment %	Share of total Income %
Current Account	2,527	20	0.80%	0.80%	9%	10%
Call Accounts	3,692	37	1.00%	0.65%	13%	17%
Money Market Funds	3,913	20	0.50%	0.77%	14%	9%
Certificates of Deposit	444	2	0.54%		2%	1%
Local Authorities	10,863	41	0.38%	0.60%	39%	19%
Debt Management Office	577	1	0.25%	0.25%	2%	1%
Banks	3,397	23	0.66%	1.37%	12%	11%
Building Societies	1,726	9	0.51%	1.17%	6%	4%
Long term Investments	1,000	59	5.95%	6.30%	4%	28%
Total	28,140	213	0.76%	1.03%		

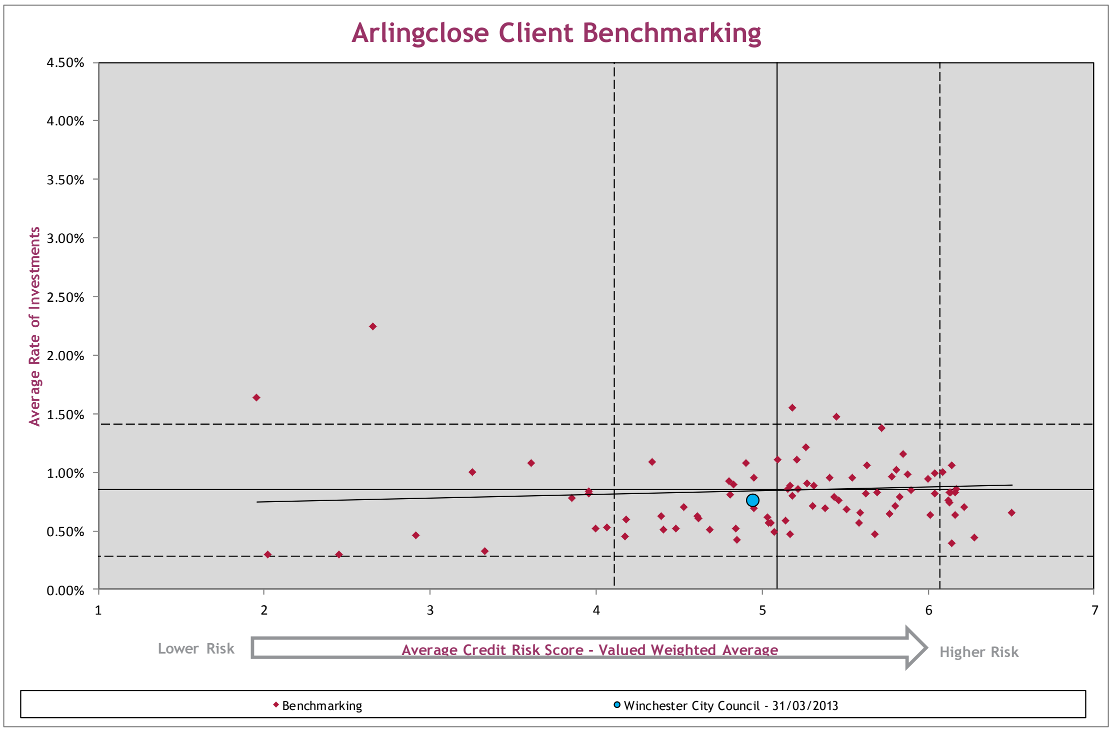
4.4 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13 (per CAB2284). New investments can be made with the institutions/instruments as set down on the approved counterparty list in Appendix E to that report.

4.5 Credit Risk, Counterparty credit quality has progressively weakened through the year, as can be demonstrated by the Credit Score Analysis summarised below, this has been caused by a swathe of banks being downgraded in June and from December the money market funds being rated according to their portfolio rather than being graded AAA. Council policy and practice in itself has not changed.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2012	1.92	AA+	1.69	AA+
30/06/2012	3.23	AA	1.59	AA+
30/09/2012	2.82	AA	1.89	AA+
30/12/2012	3.87	AA-	1.98	AA+
31/03/2013	4.94	A+	4.61	A+

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 15
-Aim = A+ or higher credit rating, with a score of 5 or lower, to reflect current investment approach with main focus on security

4.6 The Council's value weighted average credit risk score at 31 March 2013, represented by the blue circle on the chart below, is slightly below mean risk and return for Arlingclose's English Non Metropolitan District Council clients short term investments.



4.7 The Chief Finance Officer can report that the investment portfolio has been managed within the counterparty limits.

4.8 Liquidity: in keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, a current account bearing interest, and the use of call accounts.

4.9 Yield: the Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate remained at 0.5% through the year. The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels which had a significant impact on investment income.

a) Budgeted Interest Income and performance in the year.

(i) The Council's budgeted investment income for the year was set at £67,000 based on 0.5% interest rate on average cash balances representing the Council's reserves and working balances of £13.4m during the period.

(ii) The UK Bank Base Rate has been maintained at 0.5% since March 2009 and is not expected to rise within the next 3 years per Arlingclose forecasts. Short-term money market rates have remained at very low levels. The Council has an investment income outturn of £213,000 / 0.76% for the whole year on average balances of £28.1m. This was mainly due to higher than budgeted average balances being brought forward into the current year as capital projects that were to be funded by internal resources slipped and the increase in cash generated during the year, see 4.1

5 Other Holdings

5.1 Local Authorities Mutual Investment Trust (LAMIT)

a) At 31 March 2013, the Council held 422,654 property fund units in LAMIT which were purchased in 1989/90 at a cost price of £1 million. The value of LAMIT has been subject to market fluctuations.

Valuation date	Value*	Gain / (Loss) on investment (unrealised)
31st March 2009	821,000	(179,000)
31st March 2010	913,000	(87,000)
31st March 2011	962,000	(38,000)
31st March 2012	963,000	(37,000)
31st March 2013	945,000	(55,000)

b) An impairment was reflected in the Annual Accounts to 31 March 2013. The effect of the reduction in valuation as at 31 March 2013 was a further charge of £18,000 to the Comprehensive Income & Expenditure Statement in 2012/13.

c) Dividends received on this investment amounted to £59,453.

6 Heritable Bank in Administration

6.1 The Council had an investment of £1m with Heritable Bank Ltd which was placed into Administration in October 2008. Whilst in Administration, the Administrators will be seeking to find purchasers for, and will continue to manage, the remainder of Heritable’s business and loan book to maximise recovery for creditors. At 31 March 2013 the Council had received dividends of £775,471. In August 2013 a further distribution of £169,947 was received making the total received to date £945,418.

7 Compliance with Prudential Indicators

7.1 The Chief Finance Officer can confirm that the Council has complied with its Prudential Indicators for 2012/13, which were approved as part of the Council's Treasury Management Strategy Statement (CAB2284). Details can be found in Appendix A.

7.2 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2012/13. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

8 PWLB Project Rate

8.1 The 2012 Autumn Statement announced that the Government would make available a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding London) in England, with total borrowing capped at £1.5 billion. The Government will provide a UK guarantee to allow the Mayor of London to borrow £1 billion at a new preferential rate to support the Northern Line Extension to Battersea.

8.2 The March 2013 Budget announced details of the "project rate" which will enable English local authorities (LAs) working with their Local Enterprise Partnership (LEP) to access cheaper borrowing on up to £1.5 billion of investment.

8.3 The Public Works Loan Board (PWLB) project rate has been set at 40 basis points below the standard rate across all loan types and maturities. It will be available to local authorities in England from 1 November 2013. This discounted borrowing is being made available to support strategic local capital investment projects. The Government is asking each LEP to work with LAs in their area to agree which project should benefit from the cheaper borrowing support. This will give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals. The Government is now seeking business cases from LEPs, agreed with LAs, setting out borrowing requirements for their chosen local project.

OTHER CONSIDERATIONS:

9 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

9.1 The Treasury Management Strategy supports all tenets of the Sustainable Community Strategy including the core value of being efficient and ensuring value for money.

10 RESOURCE IMPLICATIONS:

10.1 Investment income amounted to £213K in 2012/13 (£239k in 2011/12).

10.2 Interest payable

a) As a consequence of the HRA finance reform settlement £5.168m interest was payable on the £156.722m loans taken out to finance the reform (£57k in the previous year)

b) An embedded lease within the Joint Environmental Services Contract cost £349k; comprising £300k capital repayment, and £49k Interest (£175k in the previous year which was a part year)

11 RISK MANAGEMENT ISSUES

11.1 These are considered within the report. The Council's Treasury Management Practices provide a detailed consideration of the management of treasury risks.

BACKGROUND DOCUMENTS:

None

APPENDICES:

Appendix A Prudential Indicators

Appendix B Investments at 31 March 2013

Appendix C Glossary of Terms

PRUDENTIAL INDICATORS

Capital Financing Requirement

The Council's borrowing requirement for 2012/13 compared to budget is shown in the table below:

	31/03/2012 Actual £000s	31/03/2013 Original Esitmate £000s	31/03/2013 Revised Estimate £000s	31/03/2013 Actual £000s
Housing Revenue Account CFR	166,853	166,853	163,353	163,353
General Fund CFR	(2,345)	4,458	118	(964)
Total CFR	164,508	171,311	163,471	162,389
Less: Other Long Term Liabilities	2,418	2,118	2,118	2,118
HRA Borrowing CFR	166,853	166,853	163,353	163,353
GF Borrowing CFR	(4,763)	2,340	(2,000)	(3,082)
Total Borrowing CFR	162,090	169,193	161,353	160,271
Less: Existing Profile of Borrowing	156,779	160,263	156,779	156,779
Gross Borrowing Requirement	5,311	8,930	4,574	3,492
Usable Balances & Reserves	19,254	14,514	24,312	27,214
Net Investment Capacity	**13,943**	**5,584**	**19,738**	**23,722**

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the Capital Financing Requirement such that any deviation is reported to her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	31/03/2012 Actual £000s	31/03/2013 Original Esitmate £000s	31/03/2013 Revised Estimate £000s	31/03/2013 Actual £000s
CFR	162,090	169,193	161,353	160,271
Gross Debt	156,779	160,263	156,779	156,779
Difference	5,311	8,930	4,574	3,492
Borrowed in excess of CFR? (Y/N)	**N**	**N**	**N**	**N**

Prudential Indicator Compliance

a) Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

The Council's Affordable Borrowing Limit was set at £188.3m

PRUDENTIAL INDICATORS

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

The Operational Boundary for 2012/13 was set at £181.3m

The Chief Finance Officer confirms that there were no breaches to the Authorised Limit or the Operational Boundary during the year. Borrowing at its peak was £159.1m and the bank overdraft facility was not used during the year.

£000's	Approved Authorised Limit	Approved Operational Boundary	Actual External Debt as at 01/04/2012	Actual External Debt as at 31/03/2013
Borrowing	183.3	178.3	156.7	156.7
Other Long-term Liabilities	5.0	3.0	2.4	2.1
Total	**188.3**	**181.3**	**159.1**	**158.8**

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Original Limits for 2012/13 £m	Revised Estimate for 2012/13 £m	Maximum during 2012/13 £m
Upper Limit for Fixed Rate Exposure	183.3	156.7	156.7
Compliance with Limits:	Yes	Yes	Yes
Upper Limit for Variable Rate Exposure	36.7	0.0	0.0
Compliance with Limits:	Yes	Yes	Yes

PRUDENTIAL INDICATORS

c) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty on interest rates.

PI Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit	Actual Fixed Rate Borrowing at 31 March 2013	% Fixed Rate Borrowing at 31 March 2013	Compliance with Set Limits?
	£m	£m	£m	%	
Under 12 months	0.0	36.7	0.0	0.0	Yes
12 months and within 24 months	0.0	20.0	0.0	0.0	Yes
24 months and within 5 years	0.0	40.0	0.0	0.0	Yes
5 years and within 10 years	0.0	60.0	5.0	3.2	Yes
10 years and within 20 years	0.0	120.0	60.0	38.3	Yes
20 years and within 30 years	0.0	183.0	35.0	22.3	Yes
30 years and within 40 years	0.0	183.3	20.0	12.8	Yes
40 years and within 50 years	0.0	183.3	36.7	23.4	Yes
50 years and above	0.0	183.3	0.0	0.0	Yes
Total	0.0	183.3	156.7	100.0	Yes

d) Capital expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

	2011/12 Actual	2012/13 Original Estimate	2012/13 Revised Estimate	2012/13 Actual
	£million	£million	£million	£million
Capital Expenditure				
Non-HRA	6.0	9.4	6.1	3.9
HRA	161.5	10.6	8.2	7.7
Financed by:				
Non - HRA				
Government grants	0.4	0.4	0.4	0.4
External contributions	0.6	0.8	0.7	0.5
Earmarked reserves	0.4	0.5	0.5	0.3
Major Investment reserve	0.3	0.5	0.8	0.6
Capital receipts	0.3	0.9	0.9	0.4
HRA				
Major repairs allowance	3.4	3.9	6.3	6.3
Revenue Reserves	0.4	6.1	1.5	0.9
Capital Receipts	0.7	0.7	0.4	0.4
External Contributions	0.1	0.0	0.0	0.1
Capital Financing Requirement	**160.6**	**6.1**	**2.8**	**1.7**
CFR Financed by				
HRA PWLB Loan	156.7	0.0	0.0	0.0
GF Embedded Lease	2.6	0.0	0.0	0.0
GF Internal Resources	1.3	6.1	2.8	1.7
Total	160.6	6.1	2.8	1.7

PRUDENTIAL INDICATORS

The table shows that the capital expenditure plans of the Authority could be funded entirely from sources other than external borrowing.

e) Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.

The ratio is based on costs net of investment income.

Affordability Indicator	2011/12 Actual %	2012/13 Original %	2012/13 Revised %	2012/13 Actual %
Non-HRA	0.0	(0.0)	(2.1)	0.6
HRA	4.0	23.3	21.4	21.1

f) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

The Council has adopted the CIPFA Treasury Management code under the Constitution, Financial Procedure Rule 5.4 (CAB313, 13 February 2002 refers)

g) Upper limit for Total Principal Sums Invested over 364 Days

the purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2011/12 Actual £m	2012/13 Orginal Estimate £m	2012/13 Revised Estimate £m	2012/13 Actual £m
	1.0	2.0	2.0	1.0

k) HRA Limit on indebtedness

HRA Limit on Indebtedness	2011/12 Actual £m	2012/13 Approved £m	2012/13 Revised £m	2012/13 Actual £m
HRA CFR	166.9	166.9	163.4	163.4
HRA Debt Cap (as prescribed by DCLG)	166.9	166.9	166.9	166.9
Difference	0.0	0.0	3.5	3.5

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Appendix B

Investments & Bank as at 31 March 2013	31 March 2013 £	Maturity Date	Term (days)	Weighted Ave Rates %
Term Deposits Banks & Building Societies				
National Westminster Bank Current Account	2,629,775			0.80
Bank of Scotland Call Account (Lloyds Bank Group)	2,000,000			0.75
Bank of Scotland Fixed Deposit	1,000,000	08/07/2013	182	0.80
Lloyds TSB (Lloyds Bank Group)	2,000,000			1.50
Barclays	2,000,000	31/12/13 & 02/01/14	362 & 356	0.96
HSBC Business Reward Account	2,000,000			0.80
Nationwide Building Society	2,000,000	04/04/13 & 02/01/14	55 & 356	0.60
Close Brothers	1,000,000		90	2.11
	14,629,775			0.97
Term Deposits UK Local Authorities/LA Bills				
Northumberland County Council	2,000,000	04/10/2013	270	0.35
North Lanarkshire Council	1,000,000	29/11/2013	274	0.45
	3,000,000			0.38
Certificates of Deposit				
Standard Chartered Bank	1,000,000	20/01/2014	364	0.62
AAA Money Market Funds				
Federated Prime Rate MMF	2,000,000			0.40
RBS Sterling Fund	800,000			0.33
Morgan Stanley	1,500,000			0.39
	4,300,000			0.38
All Short Term Funds	**22,929,775**			**0.84**
Long Term Investments				
Local Authorities Mutual Investment Trust	1,000,000			5.95
Total Bank & Investments	**23,929,775**			**1.05**

Glossary

AAA-rating The best *credit rating* that can be given to a borrower's debts, indicating that the risk of borrowing *defaulting* is minuscule.

Base rate The key interest rate set by the Bank of England. It is the overnight interest rate that it charges to banks for lending to them. The base rate - and expectations about how the base rate will change in the future - directly affect the interest rates at which banks are willing to lend money in sterling.

Basis point One hundred basis points make up a percentage point, so an interest rate cut of 25 basis points might take the rate, for example, from 3% to 2.75%.

Bill A debt *security* - or more simply an IOU. It is very similar to a *bond*, but has a maturity of less than one year when first issued.

Bond A debt *security*, or more simply, an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. They can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds.

Commercial paper Unsecured, short-term loans taken out by companies. The funds are typically used for working capital, rather than fixed assets such as a new building. The loans take the form of IOUs that can be bought and traded by banks and investors, similar to bonds.

CPI The Consumer Prices Index is a measure of the price of a bundle of goods and services from across the economy. It is the most common measure used to identify inflation in a country. CPI is used as the target measure of inflation by the Bank of England and the *ECB*.

Credit default swap (CDS) A financial contract that provides insurance-like protection against the risk of a third-party borrower defaulting on its debts. For example, a bank that has made a loan to Greece may choose to hedge the loan by buying CDS protection on Greece. The bank makes periodic payments to the CDS seller. If Greece *defaults* on its debts, the CDS seller must buy the loans from the bank at their full face value. CDSs are not just used for hedging - they are used by investors to speculate on whether a borrower such as Greece will default.

Credit rating The assessment given to debts and borrowers by a *ratings agency* according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from *AAA*, the safest, down to D, a company that has already *defaulted*. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as *junk*.

Deflation Negative inflation - that is, when the prices of goods and services across the whole economy are falling on average.

Derivative A financial contract which provides a way of investing in a particular product without having to own it directly. For example, a stock market *futures* contract allows investors to make bets on the value of a stock market index such as the FTSE 100 without having to buy or sell any shares. The value of a derivative can depend on anything from the price of coffee to interest rates or what the weather is like. Credit derivatives such as *credit default swaps* depend on the ability of a borrower to repay its debts. Derivatives allow investors and banks to hedge their risks, or to speculate on markets. *Futures*, *forwards*, *swaps* and *options* are all types of derivatives.

Fiscal policy The government's borrowing, spending and taxation decisions. If a government is worried that it is borrowing too much, it can engage in austerity - raising taxes and cutting spending. Alternatively, if a government is afraid that the economy is going into recession it can engage in fiscal stimulus - cutting taxes, raising spending and raising borrowing.

Hedging Making an investment to reduce the risk of price fluctuations to the value of an asset. Airlines often hedge against rising oil prices by agreeing in advance to buy their fuel at a set price. In this case, a rise in price would not harm them - but nor would they benefit from any falls.

Impairment charge The amount written off by a company when it realises that it has valued an asset more highly than it is actually worth.

Inflation The upward price movement of goods and services.

Junk bond A *bond* with a *credit rating* of BB+ or lower. These debts are considered very risky by the *ratings agencies*. Typically the bonds are traded in markets at a price that offers a very high *yield* (return to investors) as compensation for the higher risk of *default*.

LAMIT Local Authorities Mutal Investment Trust, a property fund exclusively for local authorities to invest in commercial and industrial property. Its objective is to provide a satisfactory total capital and income return over the long term

Leverage Leverage, or gearing, means using debt to supplement investment. The more you borrow on top of the funds (or *equity*) you already have, the more highly leveraged you are. Leverage can increase both gains and losses. *Deleveraging* means reducing the amount you are borrowing.

Libid London Inter Bank Bid Rate. The average rate at which banks in London borrow money to each other for the short-term in a particular currency. A new Libid rate is set every morning by the *British Bankers Association*.

Libor London Inter Bank Offered Rate. The rate at which banks in London lend money to each other for the short-term in a particular currency. A new Libor rate is set every morning by the *British Bankers Association*.

Liquidity How easy something is to convert into cash. Your current account, for example, is more liquid than your house. If you needed to sell your house quickly to pay bills you would have to drop the price substantially to get a sale.

Monetary policy The policies of the central bank. A central bank has an unlimited ability to create new money. This allows it to control the short-term interest rate, as well as to engage in unorthodox policies such as *quantitative easing* - printing money to buy up government debts and other *assets*. Monetary policy can be used to control inflation and to support economic growth.

Money markets Global markets dealing in borrowing and lending on a short-term basis.

PWLB Public Works Loan Board, the function of the board, derived chiefly from the Public Works Loan Act 1875 and the National Loans Act 1968, is to consider loan applications from local authorities and other prescribed bodies and to collect repayments

Quantitative easing Central banks increase the supply of money by "printing" more. In practice, this may mean purchasing government bonds or other categories of assets, using the new money. Rather than physically printing more notes, the new money is typically issued in the form of a deposit at the central bank. The idea is to add more money into the system, which depresses the value of the currency, and to push up the value of the assets being bought and to lower longer-term interest rates, which encourages more borrowing and investment. Some economists fear that quantitative easing can lead to very high inflation in the long term.

Rating The assessment given to debts and borrowers by a *ratings agency* according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from *AAA*, the safest, down to D, a company that has already *defaulted*. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as *junk*.

Rating agency A company responsible for issuing *credit ratings*. The major three rating agencies are Moody's, Standard & Poor's and Fitch.

Recapitalisation To inject fresh *equity* into a firm or a bank, which can be used to absorb future losses and reduce the risk of *insolvency*. Typically this will happen via the firm issuing new shares. The cash raised can also be used to repay debts. In the case of a government recapitalising a bank, it results in the government owning a stake in the bank. In an extreme case, such as Royal Bank of Scotland, it can lead to *nationalisation*, where the government owns a majority of the bank.

Recession A period of negative economic growth. In most parts of the world a recession is technically defined as two consecutive quarters of negative economic growth - when real output falls. In the United States, a larger number of factors are taken into account, such as job creation and manufacturing activity. However, this means that a US recession can usually only be defined when it is already over.

Securities lending When one broker or dealer lends a security (such as a bond or a share) to another for a fee. This is the process that allows *short selling*.

Securitisation Turning something into a *security*. For example, taking the debt from a number of mortgages and combining them to make a financial product, which can then be traded (see *mortgage backed securities*). Investors who buy these securities receive income when the original home-buyers make their mortgage payments.

Security A contract that can be assigned a value and traded. It could be a share, a bond or a mortgage-backed security.

Separately, the term "security" is also used to mean something that is pledged by a borrower when taking out a loan. For example, mortgages in the UK are usually secured on the borrower's home. This means that if the borrower cannot repay, the lender can seize the security - the home - and sell it in order to help repay the outstanding debt.

Spread (yield) The difference in the *yield* of two different *bonds* of approximately the same maturity, usually in the same currency. The spread is used as a measure of the market's perception of the difference in creditworthiness of two borrowers.

Swap A *derivative* that involves an exchange of cashflows between two parties. For example, a bank may swap out of a fixed long-term interest rate into a variable short-term interest rate, or a company may swap a flow of income out of a foreign currency into their own currency.

Warrants A document entitling the bearer to receive shares, usually at a stated price.

Working capital A measure of a company's ability to make payments falling due in the next 12 months. It is calculated as the difference between the company's current assets (unsold inventories plus any cash expected to be received over the coming year) minus its current liabilities (what the company owes over the same period). A healthy company should have a positive working capital. A company with negative working capital can experience cashflow problems.

Yield The return to an investor from buying a *bond* implied by the bond's current market price. It also indicates the current cost of borrowing in the market for the bond issuer. As a bond's market price falls, its yield goes up, and vice versa. Yields can increase for a number of reasons. Yields for all bonds in a particular currency will rise if markets think that the central bank in that currency will raise short-term interest rates due to stronger growth or higher inflation. Yields for a particular borrower's bonds will rise if markets think there is a greater risk that the borrower will *default*.