



To: The Executive Councillor for Finance & Resources:  
Report by: Head of Finance (The Council's Section 151 Officer)  
Relevant scrutiny committee: Strategy & Resources 04/07/2016  
Scrutiny Committee  
Wards affected: All Wards

## **ANNUAL TREASURY MANAGEMENT (OUTTURN) REPORT 2015/16**

### **Key Decision**

#### **1. Executive summary**

- 1.1 The Council is required by regulations issued under the Local Government Act 2003, to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for each financial year.
- 1.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) in respect of 2015/16.
- 1.3 During 2015/16 the minimum requirements were that Council should receive:-
  - An annual strategy in advance of the year;
  - A mid-year treasury update report; and
  - An annual review following the end of the year describing the activity compared to the strategy (this report)
- 1.4 In line with the above Code of Practice, all treasury management reports have been presented to both Strategy & Resources Scrutiny Committee and to full Council.

#### **2. Recommendations**

- 2.1 The Executive Councillor is asked to recommend this report to Council, which includes the Council's actual Prudential and Treasury Indicators for 2015/16.

#### **3. Background**

### 3.1 This report summarises:

- Capital expenditure and financing activity during the year;
- The impact of capital spending on the Council's 'need to borrow';
- The Council's compliance with prudential & treasury indicators;
- Treasury Management Position as at 31st March 2016 (Appendix A);
- The Council's Treasury Management advisors (Capita Treasury Solutions Ltd) view on UK Interest & Investment rates (Appendix B);
- The actual prudential and treasury indicators (Appendix C);
- Counterparty List (Appendix D); and;
- A Glossary of Terms and Abbreviations (Appendix E)

### 3.2 **The Council's Capital Expenditure and Financing 2015/16**

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, developer contributions, revenue contributions, reserves etc.), which has no resultant impact on the Council's borrowing need; or;
- If insufficient financing is available, or a decision is taken not to apply other resources, the funding of capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2014/15 £'000 Actual	2015/16 £'000 Current Budget *	2015/16 £'000 Actual
Non-HRA capital expenditure	7,162	41,891	26,430
HRA capital expenditure	23,402	36,099	32,572
<b>Total capital expenditure</b>	<b>30,564</b>	<b>77,990</b>	<b>59,002</b>
<b>Resourced by:</b>			
• Capital receipts	-7,178	-7,678	-11,191
• Other contributions	-23,182	-61,007	-43,200
<b>Total available resources for financing capital expenditure</b>	<b>-30,360</b>	<b>-68,685</b>	<b>-54,391</b>
<b>Un-financed capital expenditure</b>	<b>204</b>	<b>9,305</b>	<b>4,611</b>

\* Per Budget Setting Report (BSR) agreed by Council on 25<sup>th</sup> February 2016

### 3.3 The Council's overall borrowing need

During 2015/16, there was no requirement for external borrowing. Un-financed capital expenditure of £4,611k shown in the above table, was met from internal cash borrowing.

### 3.4 Current Debt as at 31<sup>st</sup> March 2016

The table below shows the Council's current outstanding debt and headroom (the amount of additional borrowing that is possible without breaching the Authorised Borrowing Limit):-

	Principal (£'000)
Authorised Borrowing Limit (A) – Agreed by Council on 20 <sup>th</sup> October 2011	250,000
HRA Debt Limit (B)	230,839
PWLB Borrowing (for HRA Self-Financing, C)	213,572
General Fund Headroom (A minus B)	19,161
HRA Headroom (B minus C)	17,267
2012/13, 2013/14, 2014/15 and 2015/16 External Borrowing	NIL
<b>Total Current Headroom (A minus C)</b>	<b>36,428</b>

At present the only debt held by the authority relates to the twenty loans from the PWLB for self-financing the HRA.

### 3.5 Treasury Position as at 31 March 2016

The Council's debt and deposit position is managed in order to ensure adequate liquidity for revenue and capital activities, security for deposits and to manage risk in relation to all treasury management activities. Procedures and controls to achieve these objectives are well established both through the application of approved Treasury Management Practices and regular reporting to Members.

All funds are internally managed.

The tables below provide a comparison of deposit activity and outturn for 2015/16 against 2014/15.

<b><u>Actual Returns</u></b>	2014/2015		2015/2016	
	Average Deposits (£m)	Average Rate of Return	Average Deposits (£m)	Average Rate of Return
Fixed Short-Term (<365 days)	60.23	0.70%	70.42	0.83%
Call/Overnight Accounts	32.79	0.57%	17.96	0.70%
Fixed Long-Term (>365 days)	5.38	1.06%	11.35	1.04%
Money Market Funds	5.18	0.47%	10.42	0.49%
CCLA Local Authorities' Property Fund	1.62	4.75%	10.00	4.75%
<b><u>Overall Deposit Return</u></b>	<b>105.20</b>	<b>0.73%</b>	<b>120.15</b>	<b>1.13%</b>
<b><u>Benchmark Returns</u></b>	2014/2015		2015/2016	
	Offer (LIBOR)	Bid (LIBID)	Offer (LIBOR)	Bid (LIBID)
<b>Average</b>	<b>0.61%</b>	<b>0.49%</b>	<b>0.63%</b>	<b>0.51%</b>

#### **Notes:**

The 'Benchmark Return' figures are based upon Global Rates (national interest rate reporting web-site) average money market LIBOR and LIBID rates for periods between 1 night and 1 year as at 31<sup>st</sup> March 2016.

The Council started using new financial instruments, such as Money Market Funds as an alternative to the bank overnight deposit account for larger sums, and the CCLA Local Authorities' Property Fund, towards the end of 2014/15. The use of these instruments throughout 2015/16 explains the higher yield.

- 3.6 Total interest and dividends of £1.353m has been earned on the Council's deposits during 2015/16 at an average rate of 1.13%. This exceeded the budget of £1.2m. The rate of return compares favourably with the average benchmark rates.
- 3.7 The Council deposited £10m with the CCLA Local Authorities' Property Fund on 29<sup>th</sup> January 2015. The interest earned for 2015/16 amounted to £480,000 (included in paragraph 3.6) which equated to an annual yield of 4.75% on the original deposit.
- 3.8 A summary of deposits is shown at Appendix A.

#### **4. Interest Rate Update**

- 4.1 Capita Asset Services is the Council's independent treasury advisor. In support of effective forecasting the Council needs to be aware of the potential influence of market interest and investment rates. Capita's opinion is presented at Appendix B, and provides an overview as at 31<sup>st</sup> March 2016.
- 4.2 The Bank of England's May 2016 Inflation Report gives additional information on growth, inflation and interest rates. The Bank of England's Monetary Policy Committee (MPC) noted that the outlook for growth remains solid. Household real incomes have been boosted by the fall in food, energy (including oil prices) and imported goods prices. No changes to interest rates or quantitative easing were made. Noticeable increases in employment were observed, but the MPC expressed concerns around the possible impact of the EU Referendum.

Growth had also moderated to around 2% by the second half of last year. CPI inflation was predicted at 2.0% by mid-2018.

#### **5. Prudential and Treasury Indicators**

- 5.1 During the financial year the Council operated within the 'authorised' and 'operational' borrowing limits contained within the Prudential Indicators set out in the Council's Treasury Management Strategy Statement. The outturn for Prudential and Treasury Indicators is shown in Appendix C.

## **6. Revisions to the Counterparty List**

- 6.1 Following a review of rating agency methodology changes, Capita continues to revise its recommendations on counterparties and appropriate durations. The Council follows Capita's recommendations as reflected in the Current Counterparty List at Appendix D.

## **7. Implications**

### **(a) Financial Implications**

Interest payable and receivable are reflected in the Council's existing budgets and reviewed appropriately.

### **(b) Staffing Implications**

None.

### **(c) Equality & Poverty Implications**

No negative impacts identified.

### **(d) Environmental Implications**

None.

### **(e) Procurement**

None.

### **(f) Consultation and communication**

None required.

### **(g) Community Safety**

No community safety implications.

## **8. Background papers**

- 8.1 None.

## **9. Appendices**

- 9.1 Appendix A – The Council’s deposits as at 31<sup>st</sup> March 2016
- Appendix B – Capita’s opinion on UK interest rates
- Appendix C – Prudential Indicators – Outturn for 2015/16
- Appendix D – Current Counterparty List
- Appendix E – Glossary of Terms and Abbreviations

## **10. Inspection of papers**

- 10.1 To inspect the background papers or if you have a query on the report please contact:

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## TREASURY MANAGEMENT POSITION AS AT 31<sup>st</sup> March 2016

### CURRENT DEPOSITS

The Council's deposits as at 31<sup>st</sup> March 2016 are shown in the table below:-

Counterparty	% Rate	Duration	Principal (£'000)
<b>Fixed Term Deposits</b>			
Bank of Scotland Plc	0.75	6 months	4,000
Bank of Scotland Plc	0.75	6 months	3,000
Bank of Scotland Plc	0.73	6 months	2,000
Bank of Scotland Plc	0.75	6 months	2,000
Bank of Scotland Plc	0.75	6 months	2,000
Bank of Scotland Plc	0.75	6 months	3,000
Lloyds TSB Bank Plc	1.00	1 year	3,000
Lloyds TSB Bank Plc	0.75	6 months	2,500
Lloyds TSB Bank Plc	0.75	6 months	5,000
Nationwide BS	0.71	6 months	2,000
The Royal Bank of Scotland	0.92	1 year	5,000
The Royal Bank of Scotland	0.90	1 year	5,000
Standard Chartered Bank	0.86	1 year	3,000
Standard Chartered Bank	0.88	1 year	2,000
Newcastle-upon-Tyne City Council	0.95	2 years	2,000
Newcastle-upon-Tyne City Council	0.95	2 years	4,000
Newport City Council	1.10	28 months	3,000
Newport City Council	1.00	28 months	3,000
North Lanarkshire Council	0.95	1 year	5,000
West Dunbartonshire Council	0.95	2 years	5,000
<b>Total Fixed Term Deposits</b>			<b>65,500</b>
<b>Variable Rate Notice Accounts</b>			
Barclays Bank Plc	0.74125	100 Day Notice	13,000
HSBC Bank Plc	0.35	Same Day Notice	2,260
CCLA Local Authorities' Property Fund	4.80	5 years	10,000
Insight GBP Liquidity Fund (Class 3)	0.51231	Same Day Notice	5,300
<b>Total Variable Rate Notice Accounts</b>			<b>30,560</b>
<b>TOTAL</b>	-	-	<b>96,060</b>

The above deposits include any forward-deals or forward-renewals that have been agreed (i.e. where the deposit/renewal will take place at a future date).



## **CAPITA'S OPINION ON UK INTEREST & INVESTMENT RATES AS AT 31<sup>ST</sup> MARCH 2016**

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate +2.1% was again a leading rate in the G7 though the US achieved a higher rate of +2.4%. Growth in quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before falling back again to +0.4% (+2.2% y/y) in quarter 3. Growth improved to +0.6% in quarter 4 (+2.1% y/y) but overall this was a disappointing outcome for the year which dashed earlier forecasts for a significantly higher rate. The economy now faces headwinds for exporters from the appreciation during 2015 of Sterling against the Euro, (which has only been minimally reversed in 2016), and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum coming up in June.

The Bank of England February Inflation Report included a forecast for growth for 2016 of 2.2% and 2.3% for 2017, down from 2.5% and 2.6% respectively. Nevertheless, this is still a reasonable rate of growth which is being driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a limited recovery in wage inflation and falls in many prices, especially fuel, which has seen CPI inflation fall to, or near to, zero over the last quarter.

The February Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are, therefore, considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the Bank of England to make a start on raising Bank Rate during 2016, especially given the subsequent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets over the last year, which could potentially spill over to impact the real economies rather than just financial markets.

## Capita's Prediction for Interest Rates

The following table shows when Capita predict interest rates will rise, together with an estimate of other interest rates. Capita estimate that the Bank Rate will rise from 0.5% to 0.75% in December 2016.

	NOW	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
<b>BANK RATE</b>	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	1.75
<b>3 month LIBID</b>	0.52	0.50	0.50	0.60	0.80	0.90	1.00	1.10	1.30	1.40	1.50	1.60	1.80	1.90
<b>6 month LIBID</b>	0.66	0.70	0.70	0.80	0.90	1.00	1.20	1.30	1.50	1.60	1.70	1.80	2.00	2.20
<b>12 month LIBID</b>	0.98	1.00	1.00	1.10	1.20	1.30	1.50	1.60	1.80	1.90	2.00	2.10	2.30	2.40
<b>5 yr PWLB</b>	0.92	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10	3.20
<b>10 yr PWLB</b>	2.58	2.60	2.70	2.80	2.90	3.00	3.10	3.20	3.30	3.40	3.50	3.60	3.60	3.70
<b>25 yr PWLB</b>	3.36	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10	4.10
<b>50 yr PWLB</b>	3.18	3.20	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90	3.90	4.00	4.00	4.00

## PRUDENTIAL &amp; TREASURY MANAGEMENT INDICATORS

	Actual 2014/15 £'000	Current Budget* 2015/16 £'000	Actual 2015/16 £'000
<b>PRUDENTIAL INDICATORS</b>			
<b>Capital expenditure</b>			
- General Fund	7,162	41,891	26,430
- HRA	23,402	36,099	32,572
<b>Total</b>	<b>30,564</b>	<b>77,990</b>	<b>59,002</b>
<b>Capital Financing Requirement (CFR) as at 31 March</b>			
- General Fund	1,360	10,569	5,976
- HRA	214,652	214,748	214,457
<b>Total</b>	<b>216,012</b>	<b>225,317</b>	<b>220,433</b>
<b>Change in the CFR (Note 2)</b>	<b>103</b>	<b>9,305</b>	<b>4,421</b>
<b>Deposits at 31 March (Note 3)</b>	108,400	99,400	96,060
<b>External Gross Debt</b>	213,572	213,572	213,572
<b>Ratio of financing costs to net revenue stream</b>			
-General Fund	-2.11%	-3.15%	-3.51%
-HRA	18.02%	17.52%	17.03%
<b>Total</b>	<b>15.91%</b>	<b>14.37%</b>	<b>13.52%</b>

\*Note1: Refers to the Council's Budget Setting Report 2016/17 as agreed by Council on 25<sup>th</sup> February 2016.

Note 2: Includes unfinanced capital expenditure of £4,611k and statutory adjustment for HRA non-dwelling revaluation losses.

Note 3: As per the Council's Balance Sheet.

## PRUDENTIAL & TREASURY MANAGEMENT INDICATORS

	Actual 2014/15 £'000	Current Budget* 2015/16 £'000	Actual 2015/16 £'000
<b>TREASURY INDICATORS</b>			
<b>Authorised limit</b>			
for borrowing	250,000	250,000	250,000
for other long term liabilities	0	0	0
<b>Total</b>	<b>250,000</b>	<b>250,000</b>	<b>250,000</b>
<b>HRA Debt Limit</b>	<b>230,839</b>	<b>230,839</b>	<b>230,839</b>
<b>Operational boundary</b>			
for borrowing	216,012	225,317	220,433
for other long term liabilities	0	0	0
<b>Total</b>	<b>216,012</b>	<b>225,317</b>	<b>220,433</b>
<b>Upper limit for total principal sums deposited for over 364 days &amp; up to 5 years</b>	40,000	40,000	40,000
<b>Upper limit for fixed &amp; variable interest rate exposure</b>			
Net interest on fixed rate borrowing/deposits	7,003	6,610	6,141
Net interest on variable rate borrowing/deposits	-23	-23	-54
<b>Maturity structure of new fixed rate borrowing</b>		Upper Limit	Lower Limit
10 years and above (PWL B borrowing for HRA Reform)		100%	100%

\*Note1: Refers to the Council's Budget Setting Report 2016/17 as agreed by Council on 25<sup>th</sup> February 2016.

## Annual Treasury Management (Outturn) Report 2015/16

### Current Counterparty List

The full listing of approved counterparties is shown below, showing the category under which the counterparty has been approved, the appropriate deposit limit and current duration limits. These counterparties have also been shown under Specified and Non-Specified Investments (in line with DCLG Guidance).

Name	Council's Current Deposit Period	Category	Limit (£)
<b>Specified Investments:-</b>			
All UK Local Authorities	N/A	Local Authority	20m
All UK Passenger Transport Authorities	N/A	Passenger Transport Authority	20m
All UK Police Authorities	N/A	Police Authority	20m
All UK Fire Authorities	N/A	Fire Authority	20m
Debt Management Account Deposit Facility	N/A	DMADF	Unlimited
Barclays Bank Plc	Using Capita's Credit Criteria	UK Bank	25m
HSBC Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
Standard Chartered Bank	Using Capita's Credit Criteria	UK Bank	20m
Bank of Scotland Plc (BoS)	Using Capita's Credit Criteria	UK Bank	20m
Lloyds TSB Bank Plc	Using Capita's Credit Criteria	UK Bank	20m
National Westminster Bank Plc (NWB)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Santander UK Plc	Using Capita's Credit Criteria	UK Bank	5m
The Royal Bank of Scotland Plc (RBS)	Using Capita's Credit Criteria	UK Nationalised Bank	20m
Other UK Banks	Using Capita's Credit Criteria	UK Banks	20m

Name	Council's Current Deposit Period	Category	Limit (£)
Members of a Banking Group (RBS Group includes NWB)	Using Capita's Credit Criteria	UK Banks and UK Nationalised Banks	30m
Deutsche Bank	Using Capita's Credit Criteria	Non-UK Bank	5m
Svenska Handelsbanken	Using Capita's Credit Criteria	Non-UK Bank	5m
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	Over 3 months and up to 1 year	Financial Instrument	5m (per single counterparty)
Money Market Funds	Liquid Rolling Balance	Financial Instrument	15m (per fund)
Custodian of Funds	Requirement for Undertaking Financial Instruments	Fund Managers	Up to 15m (per single counterparty)
UK Government Treasury Bills	Up to 6 months	Financial Instrument	15m
<b>Other Specified Investments - UK Building Societies:-</b>			
Name	Council's Current Deposit Period	Society Asset Value (£'m) – as at 28 <sup>th</sup> April 2016	Limit (£)
Nationwide Building Society	1 month or in line with Capita's Credit Criteria, if longer	194,821	Assets greater than £100,000m - £20m
Yorkshire Building Society		43,231	
Coventry Building Society		33,672	
Skipton Building Society		16,612	Assets between £50,000m and £99,999m - £5m
Leeds Building Society		14,329	
Principality Building Society		7,409	Assets between £5,000m and £49,999m - £2m
West Bromwich Building Society		5,570	
<b>Non-Specified Investments:-</b>			
Name	Council's Current Deposit Period	Category	Limit (£)
All UK Local Authorities – longer term limit	Over 1 year and up to 5 years	Local Authority	Up to 30m (in total)

<b>Name</b>	<b>Council's Current Deposit Period</b>	<b>Category</b>	<b>Limit (£)</b>
CCLA Local Authorities' Property Fund	Minimum of 5 years	Pooled UK Property Fund	Up to 10m
Certificates of Deposit (with UK Banking Institutions)	Liquid Rolling Balance	Financial Instrument	15m (per single counterparty)
Certificates of Deposit (with UK Building Societies)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Certificates of Deposit (with Foreign Banking Institutions)	Liquid Rolling Balance	Financial Instrument	2m (per single counterparty)
Enhanced Cash Funds (Standard & Poor's: AAAf/S1, Fitch: AAA/V1)	Over 1 year and up to 5 years	Financial Instrument	5m (per single counterparty)
Supranational Bonds – AAA	Using Capita's Credit Criteria	Multi-lateral Development Bank Bond	15m
UK Government Gilts	Over 1 year & up to 30 Years	Financial Instrument	15m

## Treasury Management – Glossary of Terms and Abbreviations

Term	Definition
Authorised Limit for External Borrowing	Represents a control on the maximum level of borrowing
Capital Expenditure	Expenditure capitalised in accordance with regulations i.e. material expenditure either by Government Directive or on capital assets, such as land and buildings, owned by the Council (as opposed to revenue expenditure which is on day to day items including employees' pay, premises costs and supplies and services)
Capital Financing Requirement	A measure of the Council's underlying borrowing need i.e. it represents the total historical outstanding capital expenditure which has not been paid for from either revenue or capital resources
Certificates of Deposit (CDs)	Low risk certificates issued by banks which offer a higher rate of return
CIPFA	Chartered Institute of Public Finance and Accountancy
Corporate Bonds	Financial instruments issued by corporations
Counter-parties	Financial Institutions with which funds may be placed
Credit Risk	Risk of borrower defaulting on any type of debt by failing to make payments which it is obligated to do
DCLG	Department for Communities & Local Government
Enhanced Cash Funds	Higher yielding funds typically for investments exceeding 3 months
Eurocurrency	Currency deposited by national governments or corporations in banks outside of their home market
External Gross Debt	Long-term liabilities including Private Finance Initiatives and Finance Leases
HRA	Housing Revenue Account - a 'ring-fenced' account for local authority housing account where a council acts as landlord
HRA Self-Financing	A new funding regime for the HRA introduced in place of the previous annual subsidy system
London Interbank Offered rate (LIBOR)	A benchmark rate that some of the leading banks charge each other for short-term loans



<b>Term</b>	<b>Definition</b>
London Interbank Bid Rate (LIBID)	The average interest rate which major banks London banks borrow Eurocurrency deposits from other banks
Liquidity	A measure of how readily available a deposit is
MPC	Monetary Policy Committee - The Bank of England Committee responsible for setting the UK's bank base rate
Non-Specified Investments	These are investments that do not meet the conditions laid down for Specified Investments and potentially carry additional risk, e.g. lending for periods beyond 1 year
Operational Boundary	Limit which external borrowing is not normally expected to exceed
PWLB	Public Works Loans Board - an Executive Government Agency of HM Treasury from which local authorities & other prescribed bodies may borrow at favourable interest rates
Security	A measure of the creditworthiness of a counter-party
Specified Investments	Those investments identified as offering high security and liquidity. They are also sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' credit rating criteria where applicable
Supranational Bonds	Multi-lateral Development Bank Bond
UK Government Gilts	Longer-term Government securities with maturities over 6 months and up to 30 years
UK Government Treasury Bills	Short-term securities with a maximum maturity of 6 months issued by HM Treasury
Yield	Interest, or rate of return, on an investment