2023/24 Treasury Management update – Quarter 2 (as at 30th September 2023)

Section 1	External market conditions
Section 2	Movement in treasury balances during the quarter
Section 3	Borrowing activity during the quarter
Section 4	Investment Activity during the quarter
Section 5	Treasury budget performance
Section 6	Environmental, Social and Governance strategy update
Section 7	Non-treasury investments
Section 8	Compliance with prudential indicators and treasury limits
Section 9	Glossary of Treasury terms

1. **External market conditions**

1.1. Economic background: UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

1.2. Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

1.3. July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

1.4. Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

1.5. The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

1.6. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

1.7. Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

1.8. The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

1.9. The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

1.10. Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

1.11. The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

1.12. Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

1.13. **Financial markets:** Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

1.14. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% in April to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

1.15. **Credit review:** Having completed a review of its credit advice on unsecured deposits at UK and non-UK banks following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues, in March Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

1.16. During the second quarter of the period, Moody's revised the outlook on Svenska Handelsbanken to negative from stable, citing concerns around the Swedish real estate sector.

1.17. Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

1.18. Following the issue of a Section 114 notice, in September Arlingclose advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

1.19. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

1.20. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

2. Movement in Treasury balances during the quarter

2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing, in order to reduce risk and keep interest costs low. These factors are summarised in the table below.

Table 1: Balance Sheet Summary

	31.3.23 £m	Movement £m	30.9.23 £m	31.3.24 Forecast £m
General Fund CFR	193.3	6.5	199.8	223.2
Less: *Other debt liabilities	(2.4)	0.0	(2.4)	(2.4)
Borrowing CFR	**190.9**	**6.5**	**197.4**	**220.8**
Less: External borrowing	(198.7)	19.3	(179.4)	(204.2)
Net External borrowing	**(7.8)**	**25.8**	**16.6**	**16.6**
Less: Usable reserves	(39.8)	0.0	(39.8)	(30.3)
Less: Working capital	9.0	(10.8)	(10.8)	(1.3)
Net Investments	**(38.5)**	**15.0**	**(34.0)**	**(15.0)**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

2.2. The Authority will look to maintain its strategy of internal borrowing as we move through the remainder of the financial year. If capital expenditure plans remain accurate, the Authority will have a further borrowing requirement through to the end of the year of around £24.8m (£204.2m less £179.4m) in addition to the borrowing required to refinance maturing short-term loans.

2.3. Historic trends would however suggest that the level of capital expenditure incurred during the year will be significantly lower than budgeted, and consequently the overall capital financing requirement at the end of the year will be lower than currently anticipated.

2.4. The borrowing and investment position as at 30th September and the change over the quarter is shown in the table below.

Table 2: Borrowing and Investment Summary

	30.6.23 Balance £m	30.6.23 Rate %	Movement	30.9.23 Balance £m	30.9.23 Rate %
Long-term borrowing	132.5	3.24	(5.8)	126.7	3.24
Short-term borrowing	48.3	3.23	4.4	52.7	3.72
Total borrowing	**180.8**	**3.24**	**(1.4)**	**179.4**	**3.38**
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(3.0)	4.37	(21.5)	(24.5)	4.64
Pooled Funds	(4.0)	5.46	0.0	(4.0)	6.11

Cash and cash equivalents	(18.0)	Included in ST above	12.5	(5.5)	Included in ST above
Total investments	**(25.0)**	**2.36**	**(9.0)**	**(34.0)**	**4.88**
Net Borrowing	**155.8**		**(10.4)**	**145.4**	

2.5. During the second quarter of 2023/24 the authorities net borrowing position has reduced by £10.4m due to a combination of overall borrowing levels remaining fairly static and cash balances remaining resolutely high which increased overall investment balances.

3. Borrowing activity during the quarter

Table 3: Borrowing Position

	30.6.23 Balance £m	30.6.23 Weighted Average Rate %	30.6.23 Weighted Average Maturity (years)	Balance Movement	30.9.23 Balance £m	30.9.23 Weighted Average Rate %	30.9.23 Weighted Average Maturity (years)
Public Works Loan Board	118.7	3.3	21.4	(2.8)	115.9	3.2	21.7
Banks (LOBO)	13.6	4.8	18.5	(3.6)	10.0	4.9	18.4
Welsh Gov Interest Free	5.5	0.0	3.3	(0.0)	5.5	0.0	3.0
Local authorities/Other	43.0	3.1	0.3	5.0	48.0	3.9	0.5
Total borrowing	**180.8**	**3.2**	**15.6**	**(1.4)**	**179.4**	**3.4**	**15.2**

3.1. The Authority's short-term borrowing cost has continued to increase with the rise in Bank Rate and short-dated market rates. The average rate on the Authority's short-term loans at 30th September 2023 on a balance of £48m was 3.9%, compared with 3.1% on £43m of loans 3 months ago.

3.2. **LOBO Loans:** As market interest rates rose, there was an increased probability of call options on the Authorities LOBO loans being exercised by lenders. £10.6m of LOBO loans had annual call option dates during the six-month period to September 2023, with one lender exercising their option in Quarter 2 on the following loan:

Table 4: LOBO Options Exercised

	Amount £m	Rate %	Final Maturity	New Rate Proposed %	Action Taken by Authority
Loan 1	3.6	4.6	15/08/2041	6.12	Repaid at no cost. Borrowing will not be specifically refinanced.

3.3. The Authority has £10m of remaining LOBO loans with call dates within the next 12 months. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised and expects an additional £7m loan to be called. The Authority plans to repay the loan at no additional cost as accepting the revised terms would mean the Authority would still have refinancing risk in later years. If required, the Authority will repay the LOBO loans with available cash or by borrowing from other local authorities or the PWLB.

3.4. **Forward starting loans:** To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Authority arranged £10m of forward starting loans with fixed interest rates of 4.15% for the delivery of cash in under one year's time, details of which are below:

Table 5: Forward starting loans

	Amount £m	Rate %	Period (Years)	Forward Start
Local Authority Loan 1	5.0	3.8	1.0	Nov-23
Local Authority Loan 2	5.0	4.5	1.0	Feb-24
Total	**10.0**	**4.15**		

4. **Investment Activity during the Quarter**

4.1. During the second quarter, the Authority's investment balances ranged from between £22.3m and £55.0m due to timing differences between income and expenditure. The investment position during the second quarter was as follows:

Table 6: Treasury Investment Position

	30.6.23 Balance £m	Net Movement £m	30.9.23 Balance £m	30.9.23 Income Return %	30.9.23 Weighted Average Maturity Days
Banks & building societies (unsecured)	(0.5)	(1.5)	(2.0)	Average 4.64%	Up to 180 days
Government (incl. local authorities	(3.0)	(21.5)	(24.5)		
Money Market Funds (MMFs)	(17.5)	14.0	(3.5)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	6.11%	N/A
Total investments	**(25.0)**	**(9.0)**	**(34.0)**		

4.2. UK Bank Rate increased by 0.75% over the quarter, from 4.5% at the end of June to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.32% and 12-month rates to nearly 5.83%. The rates on DMADF deposits also rose, ranging between 5.17% and 5.24% by the end of September and Money Market Rates between 5.35% and 5.19%.

4.3. At the end of the first quarter the DMADF offered comparably higher returns and lower bail in risk compared to Money market funds. As such, during the second quarter the Authority moved a higher proportion of investments to the DMADF. The returns of each investment will be monitored over the third quarter.

4.4. The comparison of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

Table 7: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
MCC 30.06.2023	AA-	3.90	86%	4	4.54
MCC 30.09.2023	AA-	3.91	18%	16	4.88
Similar LAs	AA-	4.21	29%	86	4.88
All LAs	AA-	4.33	59%	13	4.92

4.5. **Externally Managed Pooled Funds:** £4m of the Authority's investments are invested in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and longer-term price stability.

4.6. Over the first six months these funds generated £108k or an annualised average 6.11% income return, together with a £76k unrealised capital loss over the second quarter. Total unrealised capital losses since purchase stand at £506k.

4.7. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year minimum period total returns will exceed cash interest rates.

4.8. The Authority maintains a treasury risk reserve to mitigate against the risk that capital losses on pooled funds are realised and result in a charge against the Council Fund.

5. Treasury performance forecast

5.1. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget with the latest forecast shown in the table 8 below:

Table 8: Budget performance forecast

	Forecast £000's	Budget £000's	Over / (under) Budget
Interest Payable			
PWLB	3,915	3,922	(7)
Market loans	458	652	(194)
Short term loans	2,167	2,316	(149)
Other Activities (Internal Arrangements)	370	61	309
Total Interest payable on borrowing	**6,909**	**6,952**	**(43)**
Interest Receivable			
Invested cash short term	(1,189)	(925)	(264)
Pooled Funds	(199)	Included above	(199)
Finance lease income	(55)	Included above	(55)
Other Interest	(31)	Included above	(31)
Total income from Investments	**(1,036)**	**(925)**	**(549)**
Net Over/(Under)spend	**5,930**	**6,027**	**(592)**

6. Environmental, Social and Governance strategy update

6.1. In the first half of 2023/24 the investment portfolio has been assessed against 3 charters that organisations can voluntarily sign up for to ensure that all are meeting minimum level of ESG responsibility. These are shown in Table 9.

6.2. The majority of the Authorities funds were invested in organisations that were signatories of all three charters. Investments in two funds that were not signatories of the Net-Zero Asset Managers Initiative have subsequently been unwound.

6.3. An updated list of signatories to the three charters is provided by the Authority's treasury advisors each quarter and will continue to be monitored. Any counterparties not signed up to all three charters will be removed from the Authorities investment portfolio. The latest update was provided on 17.10.23 and is shown in Table 8 below.

6.4. A new ESG specific Investment product has also been opened in the second quarter. This fund aims to provide security of capital and liquidity while focussing on the performance of the underlying issuers on a range of environmental, social and governance metrics. We will look to prioritise this investment over others given opportunity while also identify new ESG conscious investments.

Table 9: ESG Charter Signatories

	UN Principles for Responsible Investment	Uk Stewardship Code 2020	Net-Zero Asset Managers Initiative
Aberdeen Asset Liquidity	✓	✓	✓
Aegon	✓	✓	✓
CCLA Investment Management	✓	✓	✓
Federated (Prime Rate) Liquidity Fund	✓	✓	✓
HSBC Global Asset Management	✓	✓	✓
LEGAL AND GENERAL MMF	✓	✓	✓
Ninety-One	✓	✓	✓
STATE STREET	✓	✓	✓
Morgan Stanley - No Longer Used	✓	✓	x
Goldman Sachs - No Longer Used	✓	✓	x

7. Non-Treasury Investments

7.1. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

7.2. The Authority held a net book value of £31.4m of non-treasury investments at the 31st March 2023. The forecast net return on investment is indicated below:

Table 10: Non-Treasury Investments

	Forecast Net (income) / loss @ Month 6 2023/24 £000's	Carrying Value 31.03.23 £000's	Net return 2023/24 %	Net return 2022/23 %
Oak Grove Solar Farm	(559)	5,485	10.19	13.44
Newport Leisure Park & service loan	(219)	19,756	1.11	0.01
Castlegate Business Park	216	6,159	(3.51)	(6.58)
Total	**(562)**	**31,400**	**1.79**	**1.06**

7.3. The investment at Newport Leisure park continues to provide a net income stream for the Authority, although this is lower than the expected 2% return after borrowing until currently negotiated rent free periods end.

7.4. The investment in Castlegate is still providing a net negative ROI, however continued negotiations with interested parties should bring back a positive net return in 2024-25 following rent free periods.. This continues to represent a significant improvement on the position since the anchor tenant vacated their space in Spring 2022.

7.5. **Commercial Loan – Broadway Partners Limited**: On the 31st May 2023, Broadway Partners Limited announced that administrators had been appointed to enable them to restructure the business and a sales process to be undertaken. During this period, Broadway were continuing to trade and provide their usual services to both new and existing customers on their high-speed fibre network, however loan repayments due since 19th April 2023 remained outstanding.

7.6. The Investment Committee resolved to defer loan repayments such as to allow Monmouthshire Broadband Limited (the SPV) to remain solvent and until the administrator for Broadway Partners Limited has concluded the process to secure a buyer for the company.

7.7. In September the administrators identified a buyer and a deal was concluded shortly after. On 27th of September all outstanding loan principal and interest due was repaid. The interest received over the life of the loan totalled £159k.

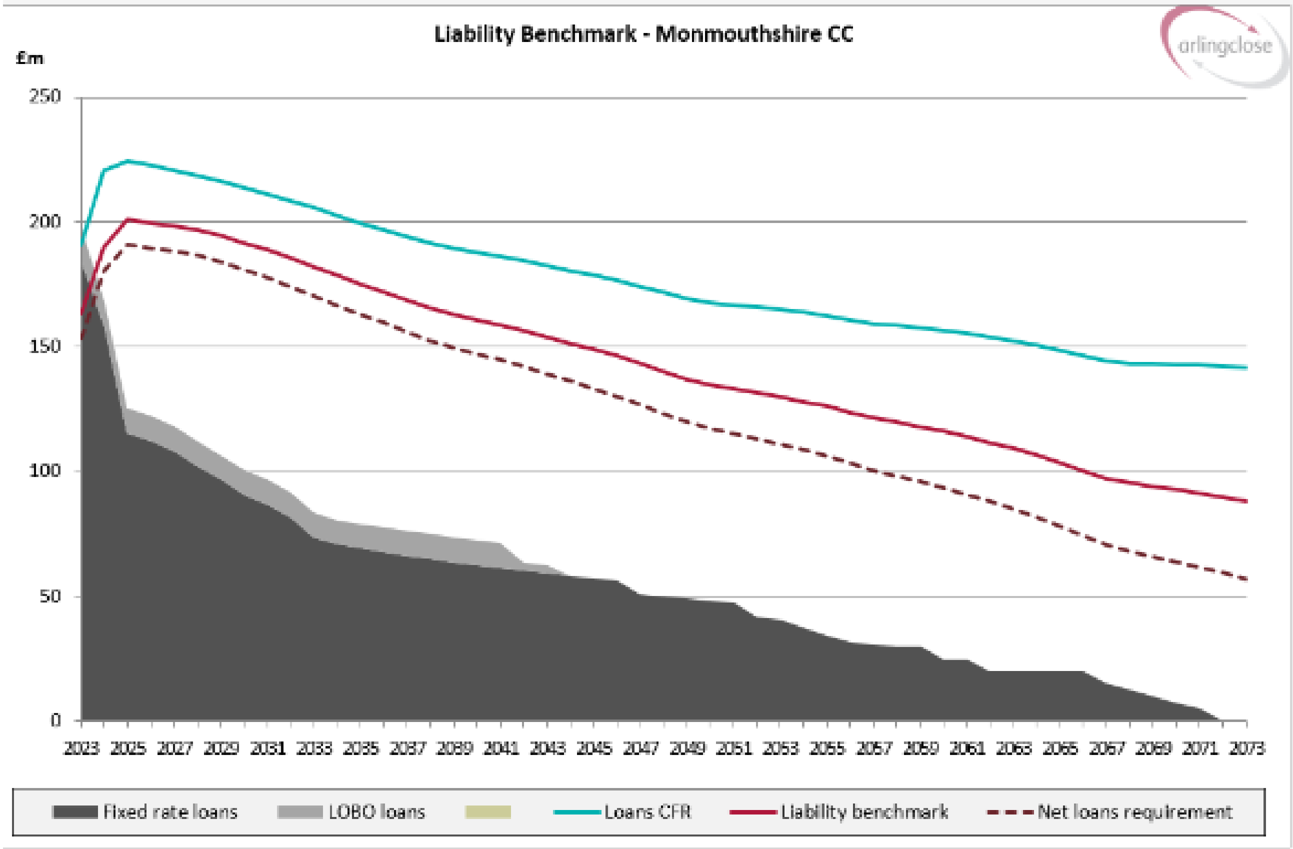
8. Compliance with prudential indicators and treasury limits

8.1. The Section 151 officer reports that all treasury management activities undertaken during the second quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

8.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.3.23 Actual	**31.3.24 Forecast**	**31.3.25 Forecast**	**31.3.26 Forecast**
Loans CFR	190.9	220.8	224.7	222.9
Less: Balance sheet resources	(37.6)	(40.6)	(33.4)	(33.2)
Net loans requirement	153.3	180.2	191.3	189.7
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**163.3**	**190.2**	**201.3**	**199.7**
Current loan profile	(198.7)	(167.8)	(125.7)	(122.1)
Borrowing requirement	**0.0**	**22.4**	**75.6**	**77.6**

8.3. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing is in line with the medium-term financial plan, minimum revenue provision on new capital expenditure is based on the annuity method, and expenditure and reserves all increasing by inflation of 2.5% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



8.4. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk.

Maturity	30.9.23 Actual	Lower Limit	Upper Limit	Complied?
Under 12 months	29%	0%	60%	Yes
12 months and within 24 months	3%	0%	30%	Yes
24 months and within 5 years	7%	0%	30%	Yes
5 years and within 10 years	15%	0%	30%	Yes
10 years and within 20 years	11%	0%	30%	Yes
20 years and within 30 years	13%	0%	30%	Yes
30 years and within 40 years	10%	0%	30%	Yes
40 years and within 50 years	11%	0%	30%	Yes
50 years and above	0%	0%	30%	Yes

8.5. **Long-Term Treasury Management Investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are**:**

	During quarter
Actual principal invested for 365 days & beyond year end	£0m
Limit	£5m
Complied?	Yes

8.6. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.23 Actual	2023/24 Target	Complied?
Portfolio average credit	AA-/3.91	A-/5.0	Yes

8.7. **Borrowing limits:** Compliance with the authorised limit and operational boundary for external debt is demonstrated below.

	Maximum in quarter £m	30.9.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied? Yes/No
Borrowing	198.7	179.4	239.9	263.9	Yes
PFI, Finance Leases & Other LT liabs	2.2	2.2	2.9	4.4	Yes
Total debt	**200.9**	**181.5**	**242.8**	**268.3**	**Yes**

8.8. **Note**: Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

8.9. **Treasury investment counterparties and limits -** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown:

	Maximum in quarter	30.9.23 Actual	2023/24 Limit	Complied? Yes/No
The UK Government	£26.4m	£24.5m	Unlimited	Yes
Local Authorities per counterparty	£0m	£0	£4m	Yes
Secured Investments	£0m	£0	£4m	Yes
Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£2.0m	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£0	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured)	£0m	£0	£2m	Yes
Money Market Funds	£4m	£3.5m	£4m	Yes
Any group of pooled funds under the same management	£2m	£2m	£5m	Yes
Real estate investment trusts	£0m	£0	£5m	Yes
Limit per non-UK country	£0m	£0	£4m	Yes
Other Investments	£0m	£0	£2m	Yes

Background paper: Glossary of Treasury Terms

Authorised Limit	**The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.** **(see also *Operational Boundary*, below)**
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail-in	Refers to the process which the banking regulatory authorities will use to restructure a financial institution which is failing or likely to fail. Unsecured creditors of and investors in that financial institution will participate in its restructure who will, as a consequence, incur a non-recoverable loss (commonly referred to as a 'haircut') on their obligation/investment. Local authority investments with banks and building societies such as term deposits, certificates of deposit, call accounts and non-collateralised bonds are unsecured investments and are therefore vulnerable to bail-in.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund)
Capital receipts	Money obtained on the sale of a capital asset.
CIPFA	Chartered Institute of Public Finance and Accountancy
Constant Net Asset Value (CNAV)	Also referred to as Stable Net Asset Value. A term used in relation to the valuation of 1 share in a fund. This means that at all times the value of 1 share is £1/€1/US$1 (depending on the currency of the fund). The Constant NAV is maintained since dividend income (or interest) is either added to the shareholders' account by creating shares equal to the value of interest earned or paid to the shareholder's bank account, depending on which option is selected by the shareholder.
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes / pooled funds.

Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often 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.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Credit default swaps	Financial instrument for swapping the risk of debt default; the buyer effectively pays a premium against the risk of default.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the HRA).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute

IFRS	International Financial Reporting Standards
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a ‘dividend’
Investments - **Secured** - **unsecured**	Secured investments which have underlying collateral in the form of assets which can be called upon in the event of default Unsecured investments do not have underlying collateral. Such investments made by local authorities with banks and building societies are at risk of bail-in should the regulator determine that the bank is failing or likely to fail.
Liability Benchmark	Term in CIPFA’s Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for ‘Lender’s Option Borrower’s Option’. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at predetermined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility.
LVNAV (Low Volatility Net Asset Value)	From 2019 Money Market Funds will have to operate under a variable Net Value Structure with minimal volatility (fluctuations around £1 limited to between 99.8p to 100.2p)
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Net Asset Value (NAV)	A fund’s net asset value is calculated by taking the current value of the fund’s assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority’s plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.

Permitted Investments	Term used by Scottish Authorities as those the Authority has formally approved for use.
Pooled funds	See Collective Investment Schemes (above)
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It "does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy". Source: Bank of England
Registered Provider of Social Housing	Formerly known as Housing Association
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges

RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are those issued by the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest)
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument