2023/24 Treasury Management update – Quarter 3 (as at 31st December 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 rates finally started to decline, mirroring the sharp but earlier drop seen in the Eurozone and US. Despite the fall, the Consumer Price Index (CPI) remained substantially in excess in the Bank of England's (BoE) 2% target, at 3.9% for November 2023. Market expectations for further rises in Bank Rate fell from October through to year end, indicating that the 5.25% level reached in August 2023 was indeed the peak for Bank Rate.

1.2. Economic growth in the UK remained weak over the period, edging into recessionary territory. In calendar Q3 2023, the economy contracted by 0.1%, following no change in Q2. Monthly GDP data showed a 0.3% contraction in October, following a 0.2% rise in September. While other indicators have suggested a pickup in activity in the subsequent months, Q4 GDP growth is likely to continue the weak trend.

1.3. July data showed the unemployment rate increased to 4.2% (3mth/year) while the employment rate rose to 75.7%. Pay growth edged lower as the previous strong pay rates waned; total pay (including bonuses) growth was 7.2% over the three months to October 2023, while regular pay growth was 7.3%. Adjusting for inflation, pay growth in real terms were positive at 1.3% and 1.4% for total pay and regular pay respectively.

1.4. Inflation continued to fall from its peak as annual headline CPI declined to 3.9% (down from 4.6%) in November 2023. The largest downward contribution came from energy and food prices. The core rate also surprised on the downside, falling to 5.1% from 5.7%.

1.5. The BoE's Monetary Policy Committee held Bank Rate at 5.25% throughout the period, although a substantial minority continued to vote for a 25 basis point rate rise. The Bank continues to tighten monetary policy through asset sales, as it reduces the size of its balance sheet. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data showed that higher interest rates were working in the UK, US, and Eurozone.

1.6. Following the December MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% is the peak in Bank Rate. Short term risks are broadly balanced, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

1.7. 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, it is likely this will reverse at some point and spending will struggle. Higher rates will also impact exposed businesses; according to S&P/CIPS survey data, the UK manufacturing and construction sectors contracted during the quarter. The services sector recovered, however, with the PMI rising strongly in December, possibly due to improving consumer confidence.

1.8. The US Federal Reserve held its key interest rate at 5.25-5.50% over the period. While policymakers continued to talk up the risks to inflation and therefore interest rates, this stance ebbed over the quarter culminating in a relatively dovish outcome from the December FOMC meeting.

1.9. The European Central Bank continues to resist market policy loosening expectations, but the Eurozone CPI rate has fallen sharply as GDP growth as markedly slowed, hitting 2.4% in November (although rising to 2.9% on energy-related base effects).

1.10. **Financial markets:** Financial market sentiment and bond yields remained volatile, but the latter rapidly trended downwards towards the end of 2023 on signs of sharply moderating inflation and economic growth.

1.11. Gilt yields fell towards the end of the period. The 10-year UK benchmark gilt yield rose from 4.57% to peak at 4.67% in October before dropping to 3.54% by the end of December 2023. The Sterling Overnight Rate (SONIA) averaged 5.19% over the period.

1.12. **Credit review:** Arlingclose maintained the advised maximum duration limit for all banks on its recommended counterparty list to 35 days over the period.

1.13. In October, Moody's revised the outlook on the UK's Aa3 sovereign rating to stable from negative. This led to similar rating actions on entities that include an element of government support in their own credit ratings, including banks and housing associations. Local authorities were, however, downgraded on expectations of lower government funding.

1.14. Following the issue of a Section 114 notice, in November Arlingclose advised against undertaking new lending to Nottingham City Council. After reducing its recommended duration on Warrington Borough Council to a maximum of 100 days in September, the local authority was subsequently suspended from the Arlingclose recommended list following a credit rating downgrade by Moody's to Baa1.

1.15. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress, but no changes were made to recommended durations over the period.

1.16. 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	31.12.23 £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)	25.2	(173.5)	(190.6)
Net External borrowing	**(7.8)**	**31.7**	**23.9**	**30.2**

Less: Usable reserves	(39.8)	4.6	(35.2)	(35.2)
Less: Working capital	9.0	(11.3)	(2.3)	(10.0)
Net Investments	**(38.5)**	**24.9**	**(13.6)**	**(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 £17.1m (£190.6m less £173.5m) 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 31st December and the change over the quarter is shown in the table below.

Table 2: Borrowing and Investment Summary

	30.9.23 Balance £m	30.9.23 Rate %	Movement	31.12.23 Balance £m	31.12.23 Rate %
Long-term borrowing	126.7	3.20	(2.0)	124.7	3.20
Short-term borrowing	52.7	3.7	(3.9)	48.8	4.16
Total borrowing	**179.4**	**3.4**	**(5.9)**	**173.5**	**3.47**
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(24.5)	4.8	21.5	(3.0)	4.50
Pooled Funds	(4.0)	5.5	0.0	(4.0)	5.77
Cash and cash equivalents	(5.5)	Included in ST above	(1.1)	(6.6)	Included in ST above
Total investments	**(34.0)**	**4.9**	**20.4**	**(13.6)**	**4.76**
Net Borrowing	**145.4**		**14.5**	**159.9**	

2.5. During the third quarter of the financial year 2023/24, the authorities' net borrowing position experienced an increase of £14.5 million. This increase can be attributed to a decrease in short-term investment balances to meet the cash flow requirements, offset by the maturity of some borrowing.

3. <u>Borrowing activity during the quarter</u>

Table 3: Borrowing Position

	30.9.23 Balance £m	30.9.23 Weighted Average Rate %	30.9.23 Weighted Average Maturity (years)	Balance Moveme nt	31.12.23 Balance £m	30.12.23 Weighted Average Rate %	30.12.23 Weighted Average Maturity (years)
Public Works Loan Board	115.9	3.2	21.7	6.3	122.2	3.3	20.8
Banks (LOBO)	10.0	4.9	18.4	(7.0)	3.0	4.5	19.9
Welsh Gov Interest Free	5.5	0.0	3.3	(0.2)	5.3	0.0	2.9
Local authorities/Other	48.0	3.9	0.5	(5.0)	43.0	4.4	0.4
Total borrowing	**179.4**	**3.2**	**15.2**	**(5.9)**	**173.5**	**3.5**	**15.1**

3.1. The Authority's short-term borrowing cost has continued to increase in line with Bank Rate increases experienced this year, and short-dated market rates. The average rate on the Authority's short-term loans at 31st December 2023 on a balance of £43m was 4.4%, compared with 3.9% on £48m of loans 3 months ago.

3.2. **LOBO Loans:** At the start of the quarter the Authority held £10m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate and terms or to repay the loan at no additional cost.

3.3. As market interest rates rose, there was an increased probability of call options on the Authorities two remaining LOBO loans being exercised by lenders. These loans had annual call option dates during the quarter to December 2023, and one lender exercised their option on the following loan:

Table 4: LOBO Options Exercised

	Amount £m	Rate %	Final Maturity	New Rate Proposed %	Action Taken by Authority
Loan 1	7.0	5.03	06/06/2041	6.9	Repaid at no cost. using two new PWLB loans with equal payments. The new loans had a slightly lower rate than the old 5.03% LOBO loan.

3.4. The Authority has one LOBO loan remaining of £3m with a call date within the next 12 months. The Authority has liaised with treasury management advisors Arlingclose over the likelihood of the options being exercised and do not expect the option to be called. If this were to change the Authority would 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.

3.5. **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 4.83% for the delivery of cash in under one year's time, details of which are below:

Table 5: Forward starting loans

	Amount	Rate	Period	Forward
	£m	%	(Years)	Start
Local Authority Loan 1	5.0	4.5	1.0	Feb-24
Local Authority Loan 2	5.0	5.15	1.0	Apr-24
Total	**10.0**	**4.83**		

4. Investment Activity during the Quarter

4.1. During the third quarter, the Authority's investment balances ranged from between £16.5m and £57.5m due to timing differences between income and expenditure. The investment position during the second quarter was as follows:

Table 6: Treasury Investment Position

	30.9.23 Balance	Net Movement	31.12.23 Balance	30.9.23 Income Return	30.9.23 Weighted Average

	£m	£m	£m	%	Maturity Days
Banks & building societies (unsecured)	(2.0)	0.5	(1.5)	Average 4.50%	Up to 180 days
Government (incl. local authorities	(24.5)	21.5	(3.0)		
Money Market Funds (MMFs)	(3.5)	(1.6)	(5.1)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.77%	N/A
Total investments	**(34.0)**	**20.4**	**(13.6)**	**4.76**	

4.2. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3. 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 30.09.2023	AA-	3.91	18%	16	4.88
MCC 31.12.2023	AA-	4.08	69%	2	4.76
Similar LAs	AA-	4.00	39%	119	4.97
All LAs	A+	4.77	60%	11	5.08

4.4. There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

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 nine months these funds generated £154k or an annualised average 5.77% income return, together with a £57k unrealised capital gain. Total unrealised capital losses since purchase stand at £384k, a reduction of £122k from the £506k reported at the end of quarter 2.

4.7. 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.

4.8. 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.

4.9. **Statutory override:** In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

5. Treasury performance forecast

5.1. The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in 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	441	652	(212)
Short term loans	1,868	2,316	(448)
Other Activities (Internal Arrangements)	377	61	316
Total Interest payable on borrowing	**6,601**	**6,952**	**(351)**
Interest Receivable			
Invested cash short term	(1,227)	(925)	(301)
Pooled Funds	(189)	Included above	(189)
Finance lease income	(55)	Included above	(55)
Other Interest	(31)	Included above	(31)
Total income from Investments	**(1,501)**	**(925)**	**(576)**
Net Over/(Under)spend	**5,100**	**6,027**	**(927)**

6. Environmental, Social and Governance strategy update

6.1. In the first nine months 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 17.01.24 and is shown in Table 8 below.

6.4. A new ESG specific Investment product opened in the second quarter continues to be used. 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

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. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return.

7.2. 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).

7.3. Investment Guidance issued by DLUHC and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

7.4. 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 9 2023/24 £000's	Carrying Value 31.03.23 £000's	Net return 2023/24 %	Net return 2022/23 %
Oak Grove Solar Farm	(568)	5,485	10.36	13.44
Newport Leisure Park & service loan	(291)	19,756	1.47	0.01
Castlegate Business Park	216	6,159	(3.51)	(6.58)
Total	**(643)**	**31,400**	**2.05**	**1.06**

7.5. 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 costs, which is expected to be a temporary position until currently negotiated rent free periods end.

7.6. 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.

8. Compliance with prudential indicators and treasury limits

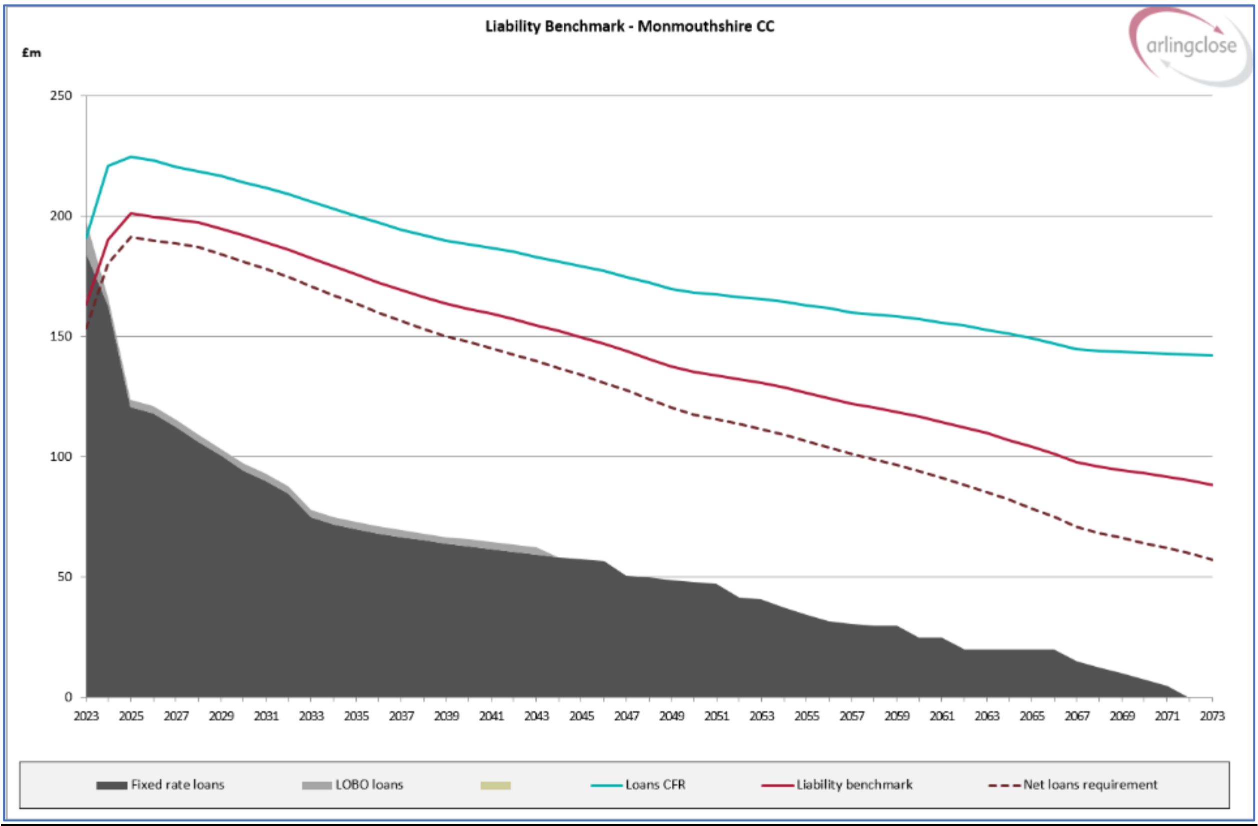
8.1. The Section 151 officer reports that all treasury management activities undertaken during the third quarter complied fully with the CIPFA code and the limits and indicators as set out in the Authority's approved Treasury Management Strategy.

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	(174.8)	(165.2)	(123.9)	(121.0)
Borrowing requirement	**0.0**	**25.0**	**77.4**	**78.7**

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. The gap between the dotted red line and the grey shaded area of the chart represents the forecast difference between the estimated borrowing requirement and the Council's current borrowing profile. If capital expenditure plans remain accurate, this gap will need to be filled by new borrowing over time.



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

Maturity	31.12.23 Actual	Lower Limit	Upper Limit	Complied?
Under 12 months	28%	0%	60%	Yes
12 months and within 24 months	3%	0%	30%	Yes
24 months and within 5 years	9%	0%	30%	Yes
5 years and within 10 years	16%	0%	30%	Yes
10 years and within 20 years	10%	0%	30%	Yes
20 years and within 30 years	12%	0%	30%	Yes
30 years and within 40 years	10%	0%	30%	Yes
40 years and within 50 years	12%	0%	30%	Yes
50 years and above	0%	0%	30%	Yes

8.6. **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

8.7. **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.

	31.12.23 Actual	2023/24 Target	Complied?
Portfolio average credit	AA-/4.08	A-/5.0	Yes

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

	Maximum in quarter £m	31.12.23 Actual £m	2023/24 Operational Boundary £m	2023/24 Authorised Limit £m	Complied? Yes/No
Borrowing	187.4	173.5	239.9	263.9	Yes
PFI, Finance Leases & Other LT liabs	2.2	2.2	2.9	4.4	Yes
Total debt	**189.6**	**175.7**	**242.8**	**268.3**	**Yes**

8.9. **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.

8.10. **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	31.12.23 Actual	2023/24 Limit	Complied? Yes/No
The UK Government	£47.0m	£3m	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)	£1.5m	£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	£4.0m	£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