

2024/25 Treasury Management Report – Quarter 2 update (as at 30th September 2024)

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1. External market conditions

- 1.1. Economic background: UK headline consumer price inflation remained around the Bank of England (BoE) target later in the period, falling from an annual rate of 3.2% in March to 2.0% in May and then rebounding marginally to June to 2.2% in July and August, as was expected, due to base effects from energy prices. Core and services price inflation remained higher at 3.6% and 5.6% respectively in August.
- 1.2. The UK economy continued to expand over the period, albeit slowing from the 0.7% gain in the first calendar quarter to 0.5% (downwardly revised from 0.6%) in the second. Of the monthly figures, the economy was estimated to have registered no growth in July.
- 1.3. Labour market data was slightly better from a policymaker perspective, showing an easing in the tightness of the job market, with inactivity rates and vacancies declining. However, a degree of uncertainty remains given ongoing issues around the data collected for the labour force survey by the Office for National Statistics. Figures for the three months to July showed the unemployment rate fell to 4.1% (3mth/year) from 4.4% in the previous three-month period while the employment rate rose to 74.8% from 74.3%.
- 1.4. Over the same period average regular earnings (excluding bonuses) was 5.1%, down from 5.4% in the earlier period, and total earnings (including bonuses) was 4.0% (this figure was impacted by one-off payments made to NHS staff and civil servants in June and July 2023). Adjusting for inflation, real regular pay rose by 2.2% in May to July and total pay by 1.1%.
- 1.5. With headline inflation lower, the BoE cut Bank Rate from 5.25% to 5.00% at the August Monetary Policy Committee (MPC) meeting. The decision was finely balanced, voted by a 5-4 majority with four members preferring to hold at 5.25%. At the September MPC meeting, committee members voted 8-1 for no change at 5.00%, with the lone dissenter preferring Bank Rate to be cut again to 4.75%. The meeting minutes and vote suggested a reasonably hawkish tilt to rates, with sticky inflation remaining a concern among policymakers.
- 1.6. The latest BoE Monetary Policy Report, published in August, showed policymakers expected GDP growth to continue expanding during 2024 before falling back and moderating from 2025 to 2027. Unemployment was forecast to stay around 4.5% while inflation was shown picking up in the latter part of 2024 as the previous years' energy price declines fell out of the figures before slipping below the 2% target in 2025 and remaining there until early 2027.
- 1.7. Arlingclose, the authority's treasury adviser, maintained its central view that Bank Rate would steadily fall from the 5.25% peak, with the first cut in August being followed by a series of

further cuts, with November 2024 the likely next one, taking Bank Rate down to around 3% by the end of 2025.

- 1.8. The US Federal Reserve (the Fed) also cut interest rates during the period, reducing the Federal Funds Rate by 0.50% to a range of 4.75%-5.00% at its policy meeting in September. The forecasts released at the same time by the central bank suggested a further 1.00% of easing is expected by the end of the calendar year, followed by the same amount in 2025 and then a final 0.50% of cuts during 2026.
- 1.9. Having first reduced interest rates in June, the European Central Bank (ECB) held steady in July before cutting again in September, reducing its main refinancing rate to 3.65% and its deposit rate to 3.50%. Unlike the Fed, the ECB has not outlined a likely future path of rates, but inflation projections remain in line with the central bank's previous forecasts where it will remain above its 2% target until 2026 on an annual basis.
- 1.10. **Financial markets:** Sentiment in financial markets continued to mostly improve over the period, but the ongoing trend of bond yield volatility remained. The general upward trend in yields in the early part of the period was reversed in the later part, and yields ended the half-year not too far from where they started. However, the volatility in response to economic, financial and geopolitical issues meant it was a bumpy ride for bond investors during that time.
- 1.11. Over the period, the 10-year UK benchmark gilt yield started at 3.94% and ended at 4.00% but hit a high of 4.41% in May and a low of 3.76% in mid-September. While the 20-year gilt started at 4.40% and ended at 4.51% but hit a high of 4.82% in May and a low of 4.27% in mid-September. The Sterling Overnight Rate (SONIA) averaged 5.12% over the period to 30th September.
- 1.12. **Credit review:** Arlingclose maintained its advised recommended maximum unsecured duration limit on all banks on its counterparty list at 100 days.
- 1.13. Having had its outlook increased by Fitch and ratings by S&P earlier in the period, Moody's upgraded Transport for London's rating to A2 from A3 in July.
- 1.14. Moody's also placed National Bank of Canada on Rating Watch for a possible upgrade, revising the outlook on Standard Chartered to Positive, the outlook to Negative on Toronto Dominion Bank, and downgrading the rating on Close Brothers to A1 from Aa3.
- 1.15. S&P upgraded the rating on National Bank of Canada to A+ from A, and together with Fitch, the two rating agencies assigned Lancashire County Council with a rating of AA- and A+ respectively.
- 1.16. Credit default swap prices were generally lower at the end of the period compared to the beginning for the vast majority of the names on UK and non-UK lists. Price volatility over the period was also generally more muted compared to previous periods.
- 1.17. Financial market volatility is expected to remain a feature, at least in the near term and, credit default swap levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remain under constant review.

2. Movement in Treasury balances

- 2.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available to offset the CFR or for investment.

Table 1: Balance Sheet Summary

	31.3.24 £m	Movement from YE £m	30.06.24 £m	Movement from Q1 £m	30.09.24 £m
General Fund CFR	198.3	0.0	198.3	0.0	198.3
Less: *Other debt liabilities	(2.3)	0.0	(2.3)	0.0	(2.3)
Borrowing CFR	196.0	0.0	196.0	0.0	196.0
Less: External borrowing	(173.9)	(3.8)	(177.7)	2.4	(175.3)
Net External borrowing	22.1	(3.8)	18.3	2.4	20.7
Less: Usable reserves	(25.3)	0.0	(25.3)	0.0	(25.3)
Less: Working capital	(8.8)	5.5	(3.3)	(8.0)	(11.3)
(Net Investments)	(11.9)	1.6	(10.3)	(5.7)	(16.0)

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

- 2.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels for the quarter, known as internal borrowing. Table 1 above highlights that at the end of the quarter the Authority was internally borrowed by £20.7m, meaning that reserves and working capital were being used in lieu of external borrowing.
- 2.3. At the end of the quarter the Authority had net investments of £16.0m. Balances over the period ranged from between £10.5m and £50.1m due to timing differences between income and expenditure and borrowing activity.
- 2.4. The treasury management position at 30th September 2024 and the change during the year is shown in Table 2 below.

Table 2: Borrowing and Investment Summary

	30.6.24 Balance £m	30.6.24 Rate %	Movement	30.9.24 Balance £m	30.9.24 Rate %
Long-term borrowing	121.1	3.25	3.8	124.9	3.30
Short-term borrowing	56.6	4.39	(6.2)	50.4	4.35
Total borrowing	177.7	3.62	(2.4)	175.3	3.6
Long-term investments	0.0	N/A	0.0	0.0	N/A
Short-term investments	(3.0)	5.15	(5.0)	(8.0)	5.02
Pooled Funds	(4.0)	5.55	0.0	(4.0)	5.15
Cash and cash equivalents	(3.3)	Included in ST above	(0.7)	(4.0)	Included in ST above
Total investments	(10.3)	5.3	(5.7)	(16.0)	5.13
Net Borrowing	167.4		(8.1)	159.3	

- 2.5. The authorities net borrowing position has slightly decreased over the quarter. This is primarily due to timing differences in funding and expenditure increasing short term

investments.

3. Borrowing activity during the year

- 3.1. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, known as internal borrowing.
- 3.2. After substantial rises in interest rates since 2021 many central banks have now begun to reduce rates, albeit slowly. Gilt yields were volatile over the 6-month period and have reduced slightly between April and September 2024. Much of the downward pressure from lower inflation figures was counteracted by upward pressure from positive economic data. Data from the US continues to impact global bond markets including UK gilt yields.
- 3.3. The PWLB certainty rate for 10-year maturity loans was 4.80% at the beginning of the half year and 4.79% at the end. The lowest available 10-year maturity rate was 4.52% and the highest was 5.18%. Rates for 20-year maturity loans ranged from 5.01% to 5.57% during the half year, and 50-year maturity loans from 4.88% to 5.40%.
- 3.4. Whilst the cost of short-term borrowing from other local authorities spiked to around 7% in late March 2024, primarily due a dearth of LA-LA lending/borrowing activity during the month, as expected shorter-term rates reverted to a more normal range and were generally around 5.00% - 5.25%.
- 3.5. At 30th September 2024 the Authority held £175.3m of loans, a decrease of £2.4m from 30th June 2024, as part of its strategy for funding previous and current years' capital programmes.
- 3.6. Outstanding loans on 30th September are summarised in Table 3 below.

Table 3: Borrowing Position

	30.6.24 Balance	30.6.24 Weighted Average Rate	30.6.24 Weighted Average Maturity (years)	Balance Movement	30.9.24 Balance	30.9.24 Weighted Average Rate	30.9.24 Weighted Average Maturity (years)
	£m	%	(years)		£m	%	(years)
Public Works Loan Board	125.2	3.3	19.8	2.2	127.3	3.4	19.6
Banks (LOBO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Welsh Gov Interest Free	7.5	0.0	1.7	0.5	8.0	0.0	2.7
Local authorities /Other	45.0	5.0	0.3	(5.0)	40.0	4.9	0.4
Total borrowing	177.7	3.6	13.9	(2.4)	175.3	3.6	14.4

- 3.7. The Authority's chief objective when borrowing has always been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

3.8. To that end, a long-term PWLB loan was taken during the period to achieve some cost certainty.

Table 4: Long-dated Loans borrowed

	Amount £m	Rate %	Period (years)
PWLB EIP Loan	5.0	4.71	16
Total	1.0		

3.9. Other borrowing activity

3.10. **LOBO Loans:** The Authority does not hold any LOBO (Lender's Option Borrower's Option) loans.

3.11. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.12. The Authority currently holds commercial investments that were purchased prior to the change in the CIPFA Prudential Code. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to access PWLB borrowing if considered cost effective.

4. Investment activity during the quarter

4.1. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

4.2. The Authority holds significant invested funds during the year, representing income received in advance of expenditure plus balances and reserves held. During the quarter, the Authority's investment balances ranged from between £10.5m and £50.1m due to timing differences between income and expenditure. The investment position at the end of the quarter was:

Table 5: Treasury Investment Position

	30.6.24 Balance	Net Movement	30.9.24 Balance	30.9.24 Income Return	30.9.24 Weighted Average Maturity Days
	£m	£m	£m	%	
Banks & building societies (unsecured)	(2.0)	1.0	(1.0)	Average 5.02%	Up to 180 days
Government (incl. local authorities)	(3.0)	(5.0)	(8.0)		
Money Market Funds (MMFs)	(1.3)	(1.7)	(3.0)		
Multi asset income, Pooled funds	(4.0)	0.0	(4.0)	5.15%	N/A

Total investments	(10.3)	(5.7)	(16.0)	5.13%
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- 4.3. 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.
- 4.4. The Authority expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.
- 4.5. Bank Rate reduced from 5.25% to 5.00% in August 2024 with short term interest rates largely being around these levels. The rates on DMADF deposits ranged between 4.94% and 5.19% and money market rates between 4.87% and 5.23%.
- 4.6. The combination of risk and return metrics are shown in the extracts from the Arlingclose quarterly investment benchmarking in the table below.

Table 6: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	<u>Bail-in Exposure</u>	Weighted Average Maturity (days)	Rate of Return
					%
MCC 31.03.2024	A+	4.51	62%	4	5.01
MCC 30.06.2024	AA-	4.30	52%	4	5.15
MCC 30.09.2024	AA-	4.10	33%	59	4.81
Similar LAs	AA-	4.30	34%	97	4.93
All LAs	A+	4.60	61%	11	4.90

- 4.7. The weighted average maturity days have increased due to a £5 million DMO deposit over six months. This was linked to longer-term PWLB borrowing taken during the quarter which was subsequently invested at a favourable rate, ensuring cost-neutral borrowing over the investment period. The deposit is set to mature before the year-end at a time when short-term borrowing rates typically spike.
- 4.8. **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.
- 4.9. These funds provide an important diversification for the Authority and generated £46k (5.68%) income return, together with a £87k (2.40%) unrealised capital gain during the quarter.
- 4.10. Accumulated unrealised capital losses over the lifetime of the investment stand at £290k. The Authority maintains an adequate treasury risk reserve to mitigate against the risk that capital losses on pooled funds become realised and consequently result in a charge against the Council Fund.

4.11. 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 the longer term that total returns will exceed cash interest rates.

4.12. **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 and currently holds a treasury equalisation reserve which could be used to mitigate the impact of the statutory override not being extended and unrealised losses on pooled investment funds are required to be recognised.

5. Environmental, Social and Governance

5.1. Throughout the year 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 the table below:

Table 7: 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

5.2. 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.

5.3. At 30th September 2024 the Authorities ESG specific Money Market Fund returned 4.88% compared to an average rate of 5.02% for all Money Market Funds. The best and worst performing funds earned 4.88% and 5.03% respectively.

6. Non-Treasury Investments

- 6.1. 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.
- 6.2. 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).
- 6.3. 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.
- 6.4. The Authority held a net book value of £31.08m of such non-financial asset investments at the 31st March 2024 (£32.2m as at 31st March 2023) made up of:

Table 8: Budget performance

	Forecast net (income) / expenditure 2024/25 £000's	Carrying Value 31.03.24 £000's	Budgeted Return 2024/25 %	Net return 2023/24 %
Oak Grove Solar Farm	(403)	5,611	7.17	9.45
Newport Leisure Park & service loan	(234)	18,819	1.24	0.15*
Castlegate Business Park	128	6,654	-1.92	-3.46
Overall portfolio	(509)	31,084	1.64	1.06

*Includes a one-off write-off of historic bad debt of £217k. Net return excluding this write-off would be 1.31% (overall portfolio 1.76%).

- 6.5. These investments continue to represent an important income diversification for the Council and contributes towards the overall funding of Council services.
- 6.6. Returns on both the Newport Leisure park and Castlegate investments will improve as the profile of rental concessions advances. A more detailed report on the performance of these investments was included in a report to the Performance & Overview scrutiny committee on 7th October 2024.
- 6.7. The Authority also holds a portfolio of legacy non-financial asset investments that have been held for over a decade and are retained for income generation, capital gain or to support wider economic development or broader policy objectives. Income generation for these agricultural, retail and industrial assets are a secondary consideration and as such return against original investment would be considered negligible.

7. Treasury budget performance

7.1. 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 9 below.

Table 9: Budget performance

	Forecast 30.09.24 £000's	Budget £000's	Over / (under) Budget £000's
Interest Payable			
PWLB	4,428	4,046	383
Market loans	12	135	(123)
Short term loans	2,481	2,916	(435)
Other Activities (Internal Arrangements)	155	155	0
Total Interest payable on borrowing	7,076	7,252	(176)
Interest Receivable			
Invested cash short term	(993)	(1,176)	183
Pooled Funds	(198)	Included above	(198)
Finance lease income	(55)	Included above	(55)
Total income from Investments	(1,246)	(1,176)	(70)
Total	6,077	6,077	(246)

8. Compliance with treasury limits and indicators

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

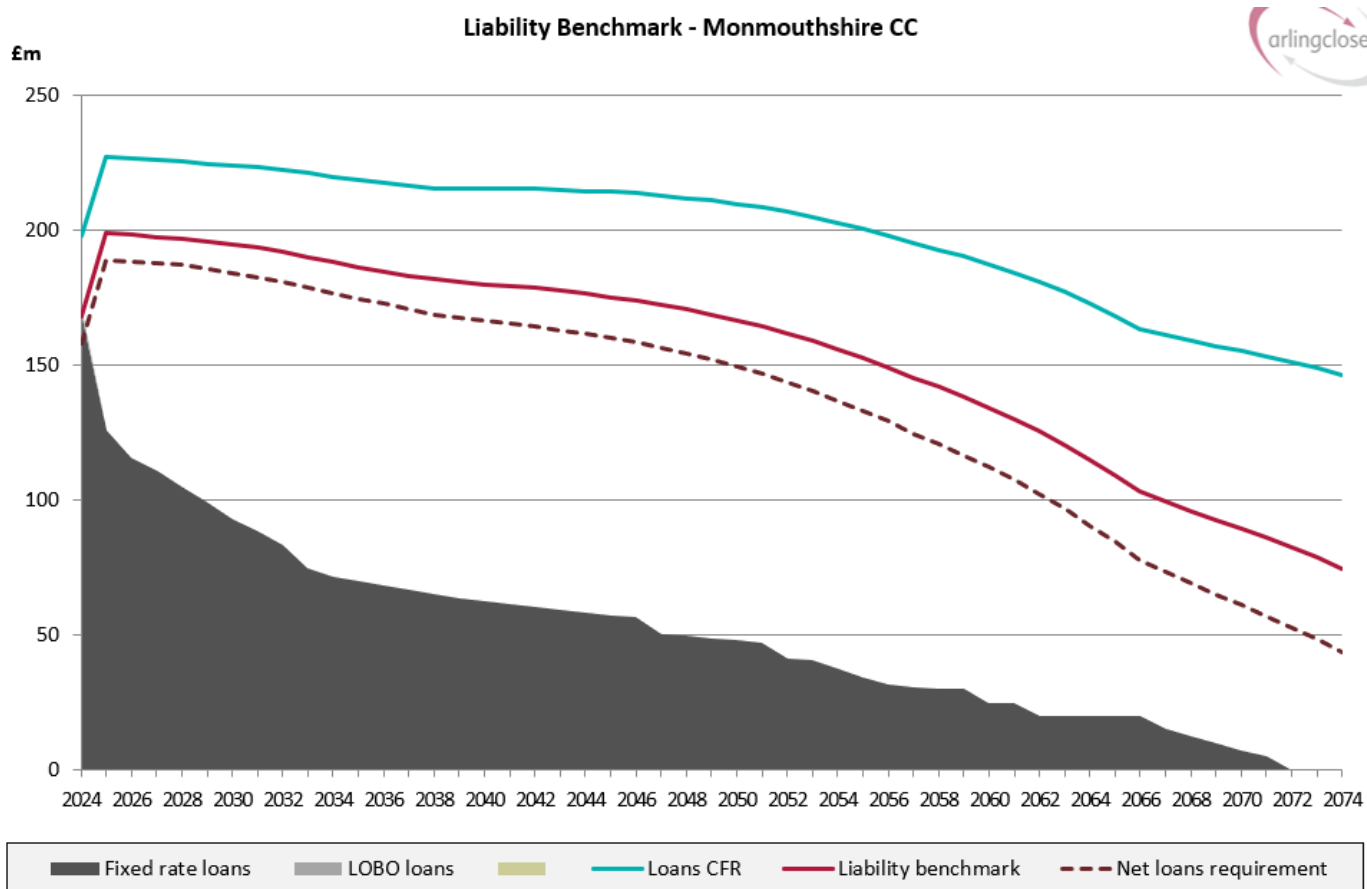
8.2. **Liability Benchmark:** This indicator compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term 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.

Table 10: Liability Benchmark

	31.3.24 Actual	31.3.25 Forecast	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
Loans CFR	196.0	227.2	226.9	226.1	225.6

Less: Balance sheet resources	(34.1)	(38.2)	(38.2)	(38.2)	(38.2)
Net loans requirement	161.9	189.0	188.7	187.9	187.4
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	171.9	199.0	198.7	197.9	197.4
Current loan profile	(171.9)	(127.2)	(117.3)	(112.3)	(105.9)
Borrowing requirement	0.0	71.8	81.4	85.6	91.5

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 loans profile. If capital expenditure plans remain accurate, this gap ultimately represents a borrowing requirement which will need be met by new and replacement loans over time.

8.5. **Borrowing limits:** Compliance with the [authorised limit](#) and [operational boundary](#) for external debt is demonstrated in the table below.

Table 11: Borrowing Limits

	2024/25 Maximum	30.9.24 Actual	2024/25 Operational Boundary	2024/25 Authorised Limit	Complied?
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	during the year £m	£m	£m	£m	Yes/No
Borrowing	187.7	175.3	252.6	268.0	Yes
PFI, Finance Leases & Other LT liabs	2.3	2.3	2.8	3.8	Yes
Total debt	190.0	177.6	255.4	271.8	Yes

8.6. **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.

8.7. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 12: Maturity Structure of borrowing

Maturity	30.9.24 Actual	Lower Limit	Upper Limit	Complied?	31.3.24 Actual (For comparison)
Under 12 months	29%	0%	50%	Yes	29%
12 months and within 24 months	3%	0%	30%	Yes	3%
24 months and within 5 years	11%	0%	30%	Yes	10%
5 years and within 10 years	15%	0%	30%	Yes	16%
10 years and within 20 years	9%	0%	30%	Yes	10%
20 years and within 30 years	12%	0%	30%	Yes	12%
30 years and within 40 years	10%	0%	30%	Yes	10%
40 years and within 50 years	11%	0%	30%	Yes	12%
50 years and above	0%	0%	30%	Yes	0%

Table 13: Investment Limits

	Maximum in quarter	2024/25 Limit	Complied? Yes/No
The UK Government	£24.1m	Unlimited	Yes
Local Authorities per counterparty	£0m	£4m	Yes
Secured Investments	£0m	£4m	Yes
Banks per counterparty, rating A- or above	£2m (£3m total for the Councils operational bank)	£2m (£3m total for the Councils operational bank)	Yes
Building societies (unsecured)	£0m	£2m	Yes
Registered providers (e.g. Housing Associations (unsecured))	£0m	£2m	Yes
Money Market Funds	£4m	£4m	Yes
Any group of pooled funds under the same management	£2m	£5m	Yes

Real estate investment trusts	£0m	£5m	Yes
Limit per non-UK country	£0m	£4m	Yes
Other Investments	£0m	£2m	Yes

8.8. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating and 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.

Table 14: Credit Risk

	30.9.24 Actual	2024/25 Target	Complied?
Portfolio average credit	AA-/4.10	A-/5.0	Yes

8.9. **Principal Sums Invested for Periods Longer than a year:** 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 limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 15: Principal invested for period longer than a year

	During 2024/25
Actual principal invested for 365 days & beyond year end	£0m
Limit	£6m
Complied?	Yes

Background paper: Glossary of Treasury Terms

Authorised Limit	<p>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 <i>Operational Boundary</i> to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.</p> <p>(see also <i>Operational Boundary</i>, below)</p>
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 <i>Also see RPI</i>	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	<p>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.</p> <p>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.</p> <p>*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.</p>
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