

## GLOSSARY

### Local Authority Treasury Management Terms

Authorised limit	The maximum amount of debt that a local authority may legally hold, set annually in advance by the authority itself. One of the Prudential Indicators.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out.
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of taxpayers. See also bail-in.
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
Capital Financing Requirement (CFR)	A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Certainty rate	Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.
Collateral	Assets that provide security for a loan or bond, for example the house upon which a mortgage is secured.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment 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').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Credit risk	The risk that a counterparty will default on its financial obligations.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit or bond. Contrast with equity.

	(2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. See also premium.  (2) To calculate the present value of an investment taking account of the time value of money.
Discount rate	The interest rate used in a present value calculation
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
Equity	An investment which usually confers ownership and voting rights
Equity fund	A collective investment scheme that mainly invests in company shares
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	Yield on gilts. Commonly used as a measure of risk-free long-term interest rates in the UK
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010
IMF	International Monetary Fund
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Internal	A local government term for when actual “external” debt is below the capital financing

borrowing	requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed
Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets
LOBO	Lender's Option Borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially
Long-term	Usually means longer than one year
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid.  (2) A type of loan where the principal is only repaid on the maturity date
MiFID II	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Fund (MMF)	A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Monetary Policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
MPC	Monetary Policy Committee. Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
MRP	Minimum Revenue Provision – an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see Loans Fund
Operational risk	The risk that fraud, error or system failure leads to an unexpected loss
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment 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').
Price risk	The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments
Prudential Code	Developed by CIPFA and introduced in April 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. Local authorities are required by

	law to have regard to the Prudential Code. The Code was updated in December 2021
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth maturity profile
REIT	Real estate investment trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many ways
Revolving credit facility (RCF)	A loan facility that can be drawn, repaid and (usually) re-drawn at the borrower's discretion. Interest is payable on drawn amounts, and a commitment fee is often payable in undrawn amounts.
Secured investment	An investment that is backed by collateral and is therefore normally lower credit risk and lower yielding than an equivalent unsecured investment
Share	An equity investment, which usually also confers ownership and voting rights
Short-term	Usually means less than one year
SONIA	Based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Replaced LIBOR from the end of January 2022
Strategic funds	Collective investment schemes that are designed to be held for the long-term, comprising strategic bond funds, diversified income funds, equity funds and property funds
T-bill	Treasury bill - a bill issued by a government
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.
Weighted average life (WAL)	The average time to maturity of an investment portfolio, weighted by the size of the investment and normally expressed in days
Weighted average maturity (WAM)	the average time to the next interest rate reset on an investment portfolio, weighted by the size of the investment and normally expressed in days. A portfolio of fixed rate investments will have a WAM identical to its WAL.
Yield	A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price