

## GLOSSARY

### Local Authority Treasury Management Terms

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| 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.   |
| CFR                      | Capital Financing Requirement. 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.   |
| 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.  |
| Deposit                  | A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.   |
| 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.  |
| Equity                   | An investment which usually confers ownership and voting rights   |
| 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   |

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|                 | originally printed on.  |
| 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  |
| LIBID           | London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.  |
| LIBOR           | London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.  |
| LOBO            | Lender's Option Borrower's option   |
| MMF             | Money Market Funds. 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   |
| 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').  |
| 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 update din 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.  |
| 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   |
| Total return    | The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.  |
| Weighted        | The weighted average time for principal repayment, that is, the average time it takes for every   |

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| average life (WAL) | dollar of principal to be repaid. The time weights are based on the principal payments, |
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