

Glossary of Treasury Management Terms

Amortising A loan or bond where principal is repaid over its term, rather than only on maturity. See also annuity and EIP.

Annuity A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.

Asset management The stewardship of capital assets, including decisions around on-going maintenance and eventual disposal.

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.

BACS Bankers' automated payment system. UK bulk payments system allowing transfers between bank accounts with two days' notice, for a small charge.

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.

Bank Regulated firm that provides financial services to customers. But see also Bank of England.

Bank of England The central bank of the UK, based in London, sometimes just called "the Bank". See also Monetary Policy Committee and PRA.

Bank Rate The official interest rate set by the Monetary Policy Committee, and the rate of interest paid by the Bank of England on commercial bank deposits. Colloquially termed the "base rate".

Bid A bid to buy a security at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate). See also offer.

Bill A certificate of short-term debt issued by a company, government, or other institution, which is tradable on financial markets.

Bond A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.

Bond fund A collective investment scheme that invests mainly in bonds.

Borrowing Usually refers to the stock of outstanding loans owed and bonds issued.

Broker Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of securities (a stockbroker) with each other in order to facilitate transactions.

Brokerage Fee charged by a broker, normally paid by the borrower.

Building society A mutual organisation that performs similar functions to a retail bank but is owned by its customers.

Call account A deposit account that can be called back, normally on instant access.

Capital (1) Long-term, as in capital expenditure and capital receipt.

(2) Principal, as in capital gain and capital value.

(3) Investments in financial institutions that will absorb losses before senior unsecured creditors.

Capital expenditure Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.

Capital finance Arranging and managing the cash required to finance capital expenditure, and the associated accounting.

Capital finance regulations Legislation covering local authorities' activities in capital finance, treasury management and accounting. Separate regulations are published for the four nations of the UK.

Capital financing requirement (CFR) A local authority'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.

Capital markets The markets for long-term finance, including bonds and shares. See also money markets.

Capital receipt Cash obtained from the sale of an item whose purchase would be capital expenditure. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.

Capital strategy An annual report required by the Prudential Code that sets out a local authorities' high-level plans for capital expenditure, debt and investments and its Prudential Indicators for the forthcoming financial year.

Cash plus fund A collective investment scheme similar to a money market fund but with a WAM up to around six months.

Central bank A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.

Certainty rate Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.

Certificate of deposit (CD) A short-term debt instrument, similar to a deposit, but that is tradable on the money markets.

CHAPS Clearing House Automated Payment System. UK payments system for sameday transfer between bank accounts, commonly used for treasury management payments.

CIPFA The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government – see Treasury Management Code and Prudential Code.

CNAV Constant net asset value - a money market fund where the net asset value is held at a constant £1 per share providing the value of the underlying investments is between 99.5p and 100.5p per share. Since 2019, this style of fund is restricted to those that only invest in government securities.

Commercial investment An investment whose main purpose is generating income, such as investment property.

Corporate bond Bond issued by a company. Sometimes the term excludes bonds issued by financial institutions.

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.

Coupon The contractual interest rate payable on a bond, as a percentage of the nominal amount. This normally reflects market conditions when the bond was originally issued.

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, measured on a harmonised basis across the European Union. See also RPI.

Credit default swap (CDS) Derivative for swapping credit risk on a particular issuer, similar to an insurance policy where the buyer pays a premium against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.

Credit rating Formal opinion by a credit rating agency of a counterparty's future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.

Credit rating agency An organisation that publishes credit ratings. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.

Credit risk The risk that a counterparty will default on its financial obligations.

Credit watch Another term for rating watch.

Credit spread The increase in interest rate payable due to credit risk, usually measured relative to government bonds.

Custodian Regulated firm that provides custody.

Custody The safekeeping of securities that are dematerialised, i.e. no longer held in paper form, including the vast majority of bonds and shares traded on financial markets.

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 longterm liabilities.

Default Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a covenant, usually as a result of being in financial difficulty (rather than an administrative oversight).

Deflation Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.

Deposit A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.

Derivative Financial instrument whose value is derived from an underlying instrument or index, such as a swap, option or future. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying. See also embedded derivative and hedge.

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.

Diversification The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of counterparties to limit credit risk or borrowing to a range of maturity dates to limit refinancing risk.

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 local authorities 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.

Dove Monetary policy maker with a preference for lower interest rates. See also hawk.

ECB European Central Bank – the central bank of the Eurozone, based in Frankfurt, Germany.

EIB European Investment Bank – a supranational bank owned by the member states of the European Union that mainly lends within the Union.

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.

EIR Effective interest rate - IFRS term for the average interest rate on a financial instrument, including the effect of premiums, discounts and fees. For a simple deposit or loan, the EIR is usually equal to the contractual interest rate; for a bond the EIR is usually equal to the yield.

ESG Environmental, social and governance considerations.

Equity (1) The residual value of an entity's assets after deducting its liabilities.

(2) An investment in the residual value of an entity, for example ordinary shares.

Equity fund A collective investment scheme that mainly invests in company shares.

Ex-dividend date The first date that a share or unit is traded without the right to receive the next dividend. The price therefore falls by the amount of the dividend.

Fair value IFRS term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.

FCA Financial Conduct Authority – UK agency responsible for regulating financial markets and the conduct of financial institutions, brokers, custodians, fund managers and treasury management advisors.

Fiscal policy Measures taken by government to boost or slow the economy via taxation and spending decisions. Fiscal loosening or easing refers to cuts in taxes or increases in spending, while fiscal tightening refers to the opposite. See also monetary policy.

Financial institution A bank, building society or credit union. Sometimes the term also includes insurance companies.

Financial instrument IFRS term for investments, borrowing and other cash payable and receivable.

Financial strength rating A type of credit rating assigned by Arlingclose to UK local authorities. Only available via iDealTrade.

Financing costs In the Prudential Code, interest payable on debt less investment income plus premiums less discounts plus MRP.

Foreign exchange (FX) risk The risk that unexpected changes in foreign exchange rates cause a loss. Rarely an issue for local authorities since they are unable to borrow and tend not to invest in foreign currency.

Forward deal An arrangement where a loan or deposit is arranged in advance of the cash being transferred, with the advance period being longer than the standard period (if any) for such a transaction.

FSCS Financial Services Compensation Scheme – UK deposit guarantee scheme that will compensate most depositors up to £85,000 in the event of a bank failure. However, most public sector organisations, financial institutions and collective investment schemes are excluded from receiving compensation.

FSMA Financial Services and Markets Act 2000, the main piece of UK legislation regulating financial services.

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.

Future A derivative whose payments depend on the future value of a variable.

Fund manager Regulated firm that manages collective investment schemes.

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.

General Fund A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing. See also Housing Revenue Account.

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.

Guarantee An arrangement where a third party agrees to pay the contractual payments on a loan to the lender if the borrower defaults.

Haircut A reduction in the value of a bond or deposit as the result of a bail-in or other restructuring of the counterparty.

Hawk Monetary policy maker with a preference for higher interest rates. See also dove.

Hedge An arrangement where one instrument (typically a derivative) is used to offset the variability in another instrument. For example, an interest rate swap where interest is receivable at a variable rate can be an effective hedge for a variable rate loan.

Hedge accounting Optional IFRS accounting arrangements to ensure that the accounting impact of a hedge matches the economic impact.

IFRS International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.

Impairment A reduction in the value of an investment caused by the counterparty being in financial difficulty.

Income return Return on investment from dividends, interest and rent but excluding capital gains and losses. See also total return.

Inflation risk The risk that unexpected changes in inflation rates cause an unplanned loss, for example by costs rising faster than income.

Interest Compensation for the use of cash paid by borrowers to lenders on debt instruments.

Interest rate risk The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.

Interest rate swap A derivative where the parties swap a fixed and a variable interest rate on an agreed nominal sum for an agreed period of time. Widely used to manage interest rate risk.

Internal borrowing A local government term for when actual “external” debt is below the capital financing requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.

Inverted yield curve Yield curve where yields decrease over time, suggesting that short-term interest rates will fall in future. A possible indicator of a recession. See also normal yield curve.

Investment bank A bank that provides services including issuing new securities in the primary market and arranging company mergers and acquisitions. Investment banks may also undertake proprietary trading, i.e. investing the bank’s own money with a view to making a profit.

Investment grade Entities and securities with a credit rating of BBB- and above, and therefore relatively unlikely to default.

Investment guidance Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.

Investment property Land and buildings that are held purely for rental income and/or capital growth. Investment properties are not owner-occupied and provide no direct service benefit.

Investment strategy A document required by investment guidance that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's treasury management strategy.

ISIN International Securities Identification Number, a number that uniquely identifies a security such as a share or bond.

Lease A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of debt.

Lessee Party to a lease contract that uses an asset owned by the lessor.

Lessor Party to a lease contract that own an asset but permits another (the lessee) to use it.

Leverage ratio A measure of financial strength of a financial institution, calculated as tier 1 capital divided by total assets plus lending commitments.

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. Used to compare against the actual and forecast level of borrowing.

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.

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. There are specific definitions in government investment guidance.

Loans CFR The capital financing requirement less the amount met by other long-term liabilities, i.e. the amount to be met by borrowing.

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.

Local indicators Prudential indicators or treasury management indicators that are not required by the relevant code of practice but have been designed locally to meet similar purposes.

Local infrastructure rate Discount on PWLB rates for new loans borrowed, available to local authorities that have been successful in a bidding round.

Long-term Usually means longer than one year.

Long-term rating A credit rating, assessing of the risk of default over the long-term. Where an agency publishes a range of long-term ratings, Arlingclose reports the rating most relevant to wholesale depositors. See also short-term rating.

LVNAV Low volatility net asset value – the most common type of money market fund introduced in 2019 that can be bought and sold for £1 per share providing that the true net asset value is between 99.8p to 100.2p.

Mark to market A process by which investments are revalued to market prices, usually with the entity accounting for the capital gain or loss as income or expenditure.

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.

Maturity profile A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.

MHCLG Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.

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.

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.

Monetary Policy Committee (MPC) 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%.

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 CNAV and LVNAV funds with a WAM under 60 days which offer instant access, but the European Union definition extends to include cash plus funds.

Money markets The markets for short-term finance, including deposits and T-bills. See also capital markets.

Money Markets Code Code of practice issued by the Bank of England for the operation of the London money market, which is mostly unregulated by MiFID II.

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.

Municipal bond Bond issued or guaranteed by local authorities.

Municipal bonds agency Company that issues bonds in the capital market and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.

NDA Non-disclosure agreement. Contract where two organisations agree not to disclose each other's confidential information. Often required at the start of commercial loan negotiations.

Net asset value (NAV) The current value of a fund's assets, net of its liabilities, usually expressed as an amount per share or unit.

Net borrowing Borrowing minus treasury investments.

Net revenue stream In the Prudential Code, income from general government grants, Council Tax and rates.

Normal yield curve A yield curve where yields increase over time, which is the more common shape. See also inverted yield curve.

Nominal The face value of a bond or share, often quite different from the market value.

Note Another term for a bond.

Notice account A deposit account where the cash can be called back after a given notice period.

Non-specified investments Government term for investments not meeting the definition of a specified investment or a loan upon which limits must be set. Since 2018, the term does not apply to treasury investments in England. Not applicable in Scotland.

Non-treasury investment management practices (NTIMPs) Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for commercial investments and service investments.

OCF Ongoing charges figure – amounts charged to collective investment scheme that reduce the return for investors. Includes the AMC plus direct charges such as brokerage.

OEIC Open-ended investment company, a type of collective investment scheme that is structured as a company, where investors buy shares in the company.

Offer An offer to sell a security at a certain price (the offer price or ask price), or an offer to lend money at a certain interest rate (the offer rate). See also Bid.

OIS Overnight index swap – an interest rate swap where the variable rate is SONIA.

Other long-term liabilities Prudential Code term for credit arrangements.

Operational boundary A prudential indicator showing the most likely, prudent, estimated level of external debt, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.

Operational risk The risk that fraud, error or system failure leads to an unexpected loss.

Option A derivative where the holder pays a premium to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.

Outlook A credit rating agency's expected direction of travel in the long-term rating over the next two years.

Paper Generic term covering commercial paper, bonds and bills.

Paper gain or loss Another term for an unrealised gain or loss.

Pension Fund Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of treasury management.

Pooled fund See collective investment scheme.

PRA Prudential Regulation Authority – the part of the Bank of England that regulates UK banks.

Present value The value today of a series of future cash flows, calculated using a discount rate.

Premium (1) The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. See also discount.

(2) The initial payment made under a derivative.

Price risk The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments.

Primary market A financial market where securities are initially issued, and investors buy from issuers or their agents. See also secondary market.

Principal The amount of money originally lent on a debt instrument.

Private Finance Initiative (PFI) A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a credit arrangement and debt.

Private placement A loan or bond that is not traded on a financial market.

Professional client MiFID II term for a client of a regulated firm that has a higher level of experience in financial markets than a retail client, and therefore needs a lower level of protection. Local authorities may “opt up” to be treated as professional clients if they meet certain requirements.

Property fund A collective investment scheme that mainly invests in property. Due to the costs of buying and selling property, including stamp duty land tax, there is usually a significant fee charged on initial investment, or a significant difference between the bid and offer price.

Prospectus Document explaining the features and risks of an investment security or a collective investment scheme.

Prudential borrowing Another term for unsupported borrowing.

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.

Prudential indicators Indicators required by the Prudential Code and 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.

PWLB Public Works Loans Board - a statutory body operating within the DMO that lends money from the National Loans Fund to local authorities 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. Reversing QE by selling back bonds, or allowing them to mature without replacement, is sometimes called quantitative tightening.

Rating watch A term used by credit rating agencies to indicate that a credit rating is under review, and that a change is likely within three months. The direction of potential change is usually indicated.

Realised gain or loss Gain or loss that will not be reversed later, e.g. because the instrument has been sold. See also unrealised gain or loss.

Recession A period of economic slowdown. The technical definition is two consecutive quarters of negative GDP growth.

Redemption The process of withdrawing cash from a collective investment scheme and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the prospectus.

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.

Rent Payment for the use of an investment property by the tenant, the main source of investment income for the landlord.

Registered Provider of Social Housing (RP) An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.

Registrar Regulated firm that maintains the register of shareholders or unitholders for a company or collective investment scheme.

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.

Retail bank A bank that provides current accounts, savings accounts, loans and payment services to households and businesses.

Retail client MiFID II term for a client of a regulated firm that has the lowest level of experience in financial markets and therefore needs the highest level of protection. Local authorities are initially classed as retail clients but may “opt up” to be treated as professional clients.

Revenue expenditure Expenditure to meet the ongoing cost of delivering public services including salaries and the purchase of goods and services, as opposed to capital expenditure.

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.

Ringfencing The process by which large UK banks have been split into retail banks and investment banks in order to promote financial stability.

Risk appetite An investor’s willingness to take additional risk in the expectation of achieving a higher return.

Risk weighted assets (RWAs) A measure that weights a bank’s loans and other assets from 0 to 200% according to their relative risks.

RPI Retail prices index - an older measure of inflation that tracks the prices of goods and services including mortgage interest and rent. Index-linked gilts are uprated using RPI. See also CPI.

Secondary market A financial market where securities are traded between investors, as opposed to the primary market.

Sector limit The maximum amount an investor is willing to lend to all counterparties in a particular industry sector, in order to manage credit risk.

Security

- (1) A financial instrument that can be traded on a secondary market.
- (2) The concept of low credit risk.
- (3) Collateral.

Secured investment An investment that is backed by collateral and is therefore normally lower credit risk and lower yielding than an equivalent unsecured investment.

Service investments Investments made to promote a local authority's public service objectives, for example a loan to a local charity or shares in a local company.

Share An equity investment, which usually also confers ownership and voting rights.

Share class A class of shares in a collective investment scheme with a set AMC and minimum investment size.

Short bond fund A bond fund with a duration of less than one year.

Short-term Usually means less than one year.

Short-term rating A credit rating, reflecting the risk of default within the next 13 months, usually linked directly to the long-term rating.

Soft loan A loan made at below market interest rates. See also state aid.

SONIA Sterling overnight interest average – a benchmark interest rate for overnight deposits.

SORP Statement of Recommended Practice – an old term for the Code of Practice on Local Authority Accounting in the United Kingdom.

Specified investments Term used in government investment guidance for investments that are denominated in sterling, mature in less than a year, are not defined as capital expenditure, and are made with the UK government, another UK local authority or a high credit quality body, as defined by the local authority. Since 2018, the term does not apply to treasury investments in England. Not applicable in Scotland. In Wales, loans to local authorities are specified investments even if they do not fully meet the criteria.

Speculative grade Investments with a credit rating of BB+ or below, and therefore more vulnerable to default than investment grade securities.

State aid Financial assistance provided by the public sector to the private sector, such as grants and soft loans, which has the potential to distort competition and is therefore often, but not always, legal.

Strategic bond fund Bond fund with a duration of longer than one year.

Strategic funds Collective investment schemes that are designed to be held for the longterm, comprising strategic bond funds, diversified income funds, equity funds and property funds.

Subordinated bonds Bonds that rank below other bonds in the event of an insolvency or bail-in. They are therefore higher risk, but also higher yielding.

Subscription The process of placing cash in a collective investment scheme and creating units or shares.

Support rating A credit rating agency's view on the likelihood and ability of parent companies or governments to provide external support to prevent a bank failure leading to losses for investors.

Supported borrowing Borrowing for which the repayment costs are supported by government grant.

Supranational bonds Bonds issued by supranational organisations created by governments through international treaties, such are those issued by the European Investment Bank and the International Bank for Reconstruction and Development.

Swap A derivative where the counterparties exchange cash flows, for example fixed rate interest and variable rate interest. See also interest rate swap.

Swap rate The fixed rate on an interest rate swap. Commonly used as a measure of riskfree long-term interest rates.

T-bill Treasury bill - a bill issued by a government.

Tap Process by which additional amounts of an existing bond are issued.

Temporary borrowing Borrowing with a term of less than one year.

Term deposit A deposit that is repayable after a fixed period of time.

TLAC Total loss absorbing capacity - a measure of all the equity and junior debt held by a financial institution that will absorb losses before senior unsecured creditors, expressed as a ratio to risk weighted assets.

TMS (1) Treasury management strategy.

(2) Treasury management system.

Total return The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. See also income return.

Transferred debt Debt contractually held by one local authority but whose costs are borne by another authority, usually following local government reorganisation.

Treasury bill See T-bill.

Treasury investments Investments made for treasury management purposes, as opposed to commercial investments and service investments.

Treasury management The management of an organisation's cash flows, investment and borrowing, with a particular focus on the identification, control and management of risk. Specifically excludes the management of pension fund investments.

Treasury management advisor Regulated firm providing advice on treasury management, capital finance and related issues.

Treasury Management Code (TM Code) CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.

Treasury management indicators Indicators required by the Treasury Management Code to assist in the management of credit risk, interest rate risk, refinancing risk and price risk.

Treasury management policy statement Document required by the Treasury Management Code setting out a local authority's definition of and objectives for treasury management.

Treasury management practices (TMPs) Document required by the Treasury Management Code setting out a local authority's detailed processes and procedures for treasury management.

Treasury management strategy Annual report required by the Treasury Management Code covering the local authority's treasury management plans for the forthcoming year.

Treasury management system Computer programme for recording investments, borrowing, cash flow forecasts and market data to assist with treasury management operations.

Unit The equivalent of a share in an authorised contractual scheme or unit trust.

Unit trust A type of collective investment scheme that is structured as a trust, where investors buy units in the trust.

Universal bank A bank that provides the services of both a retail bank and an investment bank.

Unrealised gain or loss Gain or loss that may be reversed later, e.g. from marking to market. Also called a paper gain or loss. See also realised gain or loss.

Unsupported borrowing Borrowing where the cost is self-financed by the local authority. Sometimes called prudential borrowing since it was not permitted until the introduction of the Prudential Code in 2004. See also supported borrowing.

Usable reserves Resources available to finance future revenue and/or capital expenditure. Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.

Viability rating The same as BCA.

Volatility A measure of the variability of a price or index, usually expressed as the annualised standard deviation.

VNAV Variable net asset value – a collective investment scheme where the net asset value fully reflects the actual value of the underlying assets, in contrast to a CNAV or LVNAV scheme.

WAL Weighted average life – the average time to maturity of an investment portfolio, weighted by the size of the investment and normally expressed in days.

WAM Weighted average maturity – 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.

Working capital The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.

Yield A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price.

Yield curve A chart of yields or interest rates for similar instruments over a range of maturity dates. See also inverted yield curve and normal yield curve.