Glossary of Treasury Management terms

Authorised Borrowing Limit: The limit at which the council's external borrowing cannot be breached. This limit is set by Council as part of the budget each year, and further approval by Council is required for any in-year amendment to the limit. The limit must be set in accordance with the Prudential Code for Capital Finance in Local Authorities.

Capital Financing Requirement (CFR): This is the council's cumulative need to borrow to support its capital programme. This increases each year by the amount of capital expenditure that cannot be financed from reserves, capital receipts, capital grants or direct revenue contributions and for which the council must therefore borrow. The council is required to make an annual minimum revenue provision (MRP) which reduces the CFR.

Credit Ratings: The council uses the credit ratings for counterparties provided by the three main credit ratings agencies (Moodys, Fitch and Standard & Poor) to determine how much and for how long the council should lend to them. The highest credit rating as described in the strategy is AAA, and the lowest credit rating that the council is willing to lend to is BBB. This reflects the council's low risk appetite as a public authority.

Debt Maturity Profile: The timeline over which the council has to repay its debt. A smooth profile is preferable, as small, regular repayments reduce the risk of having to replace a lot of debt at a time when it may not be the optimum market conditions.

HRA (Housing Revenue Account): This is a ring-fenced landlord account recording expenditure and income arising from the provision of housing accommodation by local housing authorities under Part II of the Housing Act 1985. The main items of expenditure included in the account are management and maintenance costs, major repairs, loan charges, and depreciation costs. The main sources of income are from tenants in the form of rents and service charges.

7 Day LIBID: London Interbank Bid Rate – A market benchmark rate at which London Banks are willing to borrow from each other for a period of 7 days. This moves daily with market and Bank Base rate changes and is a key market rate against which the council benchmarks its investment return performance.

Lender Option/Borrower Option (LOBO) Loans: Loans held with market lenders (such as banks) where lenders hold the right to increase the interest rate on the loans at set intervals during the loan. The council (the borrower) also has the right to repay the loans without penalty if the lender choses to increase the interest rate. The council's LOBO Loan portfolio has reduced from £70m to £25m currently which is held with three different lenders.

Minimum Revenue Provision (MRP): A statutory provision that the council sets aside from revenue to reduce its Capital Financing Requirement. This has the impact of setting aside the cash to repay any debt incurred as a result of funding the capital programme by borrowing.

Operational Boundary: A limit set by Council as part of the budget each year. Whilst the Authorised Borrowing Limit (see above) cannot be breached, the Operational Boundary is the expected level that external debt will reach, taking into account current levels of debt, maturing debt that may need replacing and capital expenditure plans for the forthcoming year. It is one of a suite of prudential indicators set in accordance with the Prudential Code for Capital Finance in Local Authorities.

PWLB Loans: Loans held with the Public Works Loans Board. This is the primary lender for Local Authorities and forms part of the Debt Management Office (DMO) within the HM Treasury department of Central Government.

Risk Benchmark: An indicator used to monitor the perceived level of risk within the council's investment portfolio.

Under-borrowing: The difference between the council's CFR and actual level of debt, where the actual debt is lower than the CFR. In simple terms, where the council has not borrowed as much as it needs to. This can occur when council uses its own cash balances to temporarily fund capital expenditure.