

Glossary of Treasury Management terms

Authorised Borrowing Limit: The limit for which the council's external borrowing cannot breach. This limit is set by Council as part of the budget each year, and needs to be approved by Council to amend in the year if required.

Capital Financing Requirement (CFR): The council's cumulative need to borrow to support its capital programme. This increases each year by capital expenditure where existing funding streams (such as reserves, capital receipts, grants or revenue contributions) have not been applied (which is also known as funding through borrowing). The Council must 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 (Moody's, Fitch and Standard & Poor) to determine how much and for how long the council can 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.

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.

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 currently a key market rate which the council uses as its benchmark for investment returns. NB: this benchmark was phased out from 31 December 2021, so the council's investment yield benchmark has changed to SONIA.

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 has the right to repay the loans without penalty if the lender chooses to increase the interest rate. The council's LOBO Loan portfolio is currently £25m held with three different lenders.

Minimum Revenue Provision (MRP): A statutory provision that the council sets aside from revenue to reduce its CFR. 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 Limit cannot be breached, the operational boundary is the expected level at which external debt will reach, taking into account current levels of debt, maturing debt that may need replacing and capital plans for the forthcoming year.

PWLB Loans: Loans held with the Public Works Loans Board. This is the primary lender for Local Authorities, and the PWLB 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.

SONIA: Sterling Overnight Index Average – an overnight interest rate monitored and calculated by the Bank of England based on actual transactions undertaken in the market on a daily basis. A historical index which replaces 7-DAY LIBID as the Council's benchmark rate from 1 January 2022.

Under-borrowing: The difference between the council's CFR and actual level of debt, where the actual debt is lower than the CFR. This occurs when council uses cash from its own reserves to temporarily fund capital expenditure. Also known as Internal Borrowing.