

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.

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.

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.

SONIA: Sterling Over Night Index Average – A benchmark rate calculated and administered by the Bank of England. This rate effectively replaces LIBOR from 1 January 2022 as the key benchmark rate in the UK. The calculation of SONIA is based on actual

transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.