

## Local Government Finance Glossary

### Local Authority Treasury Management Terms

Terms	Descriptions
<b>Bond</b>	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
<b>Borrowing</b>	Usually refers to the stock of outstanding loans owed, and bonds issued.
<b>CFR</b>	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.
<b>Capital gain or loss</b>	An increase or decrease in the capital value of an investment, for example through movements in its market price.
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management.
<b>Collective investment scheme</b>	Scheme in which multiple investors collectively 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').
<b>Cost of carry</b>	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.
<b>Counterparty</b>	The other party to a loan, investment, or other contract.
<b>Counterparty limit</b>	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
<b>Covered bond</b>	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.
<b>CPI</b>	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
<b>Deposit</b>	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
<b>Diversified income fund</b>	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.
<b>Dividend</b>	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
<b>DMADF</b>	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.

Terms	Descriptions
<b>MHCLG</b>	Ministry of Housing, Communities & Local Government - The Ministry of Housing, Communities and Local Government is central to the mission-driven government, from fixing the foundations of an affordable home to handing power back to communities and rebuilding local governments.
<b>DMO</b>	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
<b>Equity</b>	An investment which usually confers ownership and voting rights
<b>Floating rate note (FRN)</b>	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
<b>FTSE</b>	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.
<b>GDP</b>	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
<b>Income Return</b>	Return on investment from dividends, interest and rent but excluding capital gains and losses.
<b>GILT</b>	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
<b>LIBID</b>	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
<b>LOBO</b>	Lender's Option Borrower's option
<b>MMF</b>	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity.
<b>MPC</b>	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
<b>MRP</b>	Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as <b>Minimum Revenue Provision ("MRP")</b> , although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision ("the MHCLG Guidance") most recently issued in April 2024.
<b>OBR</b>	The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world.
<b>PMI</b>	Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added).
<b>Pooled Fund</b>	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').
<b>Price Risk Indicator</b>	Price risk is the risk of a decline in the value of a security or an investment portfolio excluding a downturn in the market, due to multiple factors. Investors can employ

Terms	Descriptions
	a number of tools and techniques to hedge price risk, ranging from relatively conservative decisions (e.g., buying put options) to more aggressive strategies (e.g., short selling).
<b>PWLB</b>	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.
<b>Quantitative easing (QE)</b>	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
<b>SME</b>	SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced.
<b>SONIA</b>	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
<b>Short-dated</b>	Usually means less than one year.
<b>TMSS</b>	Approved Council's Treasury Management Strategy Statement
<b>Total return</b>	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.
<b>VRP</b>	The Council is required to pay off an element of the accumulated general fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments ( <b>Voluntary Revenue Provision - VRP</b> ).