

GLOSSARY

Local Authority Treasury Management Terms



Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	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.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
CIPFA	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.
Collective investment scheme	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').
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.
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.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
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 councils to deposit cash at very low credit risk. Not available in Northern Ireland.

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MHCLG	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 government.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government’s debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
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.
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.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
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.
LOBO	Lender Option Borrower option loan under which a lender advances a loan on certain terms which can only be varied when the lender exercises their option (which may be change terms such as the interest rate), which then permits the borrower to exercise their option to either accept the new terms or repay the loan.
MMF	Money Market Funds. Collective investment schemes which invest in a range of short-term assets providing high credit quality and high liquidity.
MPC	The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable.
MRP	Where the Authority finances capital expenditure by debt, it must set aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (“MRP”) . Since 2008, local authorities have been required to set a “prudent” level of MRP. In setting a “prudent” level of MRP local authorities are required to have regard to the Statutory Guidance on Minimum Revenue Provision , most recently issued in April 2024.
OBR	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.
PMI	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).
Pooled Fund	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’).

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Price Risk Indicator	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 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).
PWLB	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.
RPI	The Retail Prices Index which tracks the cost of a “basket” of goods including housing costs (mortgage interest and council tax).
RPIx	RPIx is RPI excluding the direct impact of interest rate changes. Long-term contracts sometimes include an inflator element such as RPIx.
Quantitative easing (QE)	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.
SME	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.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits. This has replaced LIBOR as the benchmark lending rate.
Short-dated	Usually means less than one year.
TMSS	Approved Council’s Treasury Management Strategy Statement
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.
VRP	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 (Voluntary Revenue Provision - VRP).
Usable Reserves	Usable reserves as those that represent resources that the authority can use to support service delivery. There are three types of usable reserve: <ul style="list-style-type: none"> • The General Fund, which is the accumulated balance on the General Fund – see Earmarked Reserves and Ringfenced Reserves; • The Capital Receipts Reserve which reports the capital receipts from the sale of assets, and can only be used to fund either new capital expenditure, repay debt or fund the directly attributable costs of disposing an asset; • The Capital Grants Reserve which reports all capital grants received and can only be used to fund capital expenditure. Some capital grants have conditions limiting the purpose for which the grant can be used.
Earmarked Reserves	Local authorities are permitted to “ earmark” parts of the General Fund balance for specific policy purposes (i.e. saving up funds for a particular project or smoothing expenditure over a number of years) or known/predicted risks (eg insurance risks). -Fenced internally by the authority for a defined purpose such as meeting specific risks, funding future projects, smoothing expenditure, or holding unspent ring-fenced grants.
Ringfenced Reserves	These are those elements of the General Fund balance which have to be ringfenced for specific purposes comprising: <ul style="list-style-type: none"> • The CIL Reserve which reports contributions from developers under the local authority’s approved Community Infrastructure Levy (CIL) Scheme and can only be used for the purposes set out in the CIL Scheme; and

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	<ul style="list-style-type: none"> Developer contributions which are monies received from developers to discharge obligations under planning agreements granted under section 106 of the Town and Country Planning Act 1990. S.106 contributions can only be used for the purpose set out in the s.106 agreement. These can be used for both revenue and capital expenditure depending on the s.106 agreement
Unusable Reserves	<p>Unusable reserves are not available to use to support service delivery. These reserves arise from either:</p> <p>a) statutory adjustments required to reconcile balances to the amount chargeable to council tax for the year, to comply with legislation, or</p> <p>b) accounting gains or losses recognised in other comprehensive income and expenditure in accordance with accounting standards adopted by the Code, rather than in the surplus or deficit on the provision of services</p>