

Appendix 2 - Glossary of Terms

1. **Authorised Limit** –represents the limit beyond which borrowing is prohibited, and needs to be set and revised by the Council. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.
2. **Bank Rate** – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.
3. **Counterparty** – the other party involved in a borrowing or investment transaction.
4. **Capital Financing Requirement (CFR)** – the level of capital expenditure to be financed from borrowing.
5. **Liquidity** – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short term financial obligations.
6. **LIBID** – London Interbank Bid Rate - The interest rate at which London banks ask to pay for borrowing Eurocurrencies from other banks. Unlike LIBOR, which is the rate at which banks lend money, LIBID is the rate at which banks ask to borrow. It is not set by any body or organisation, but is calculated as the average of the interest rates at which London banks bid for borrowed Eurocurrency funds from other banks. It is also the interest rate London banks pay for deposits from other banks.
7. **LOBO** – Lenders Option Borrowers Option. Long term borrowing deals structured in such a way that a low rate of interest is usually offered for a short, initial period (anything from 1 year to 7 years), followed by a “step rate” to a higher rate of interest (the “back end” interest rate), which is to be charged for the remainder of the loan period.

The overall length of LOBOs is usually 50 or 60 years but can be shorter or longer periods. After the “step up” date, and at set intervals thereafter, the lender (the bank) has the option of increasing the “back end” interest rate. Whenever this option is exercised, if the proposed new rate is unacceptable, the borrower (the Council) can redeem the loan without penalty.
8. **Monetary Policy Committee** – the independent body which determines the Bank Rate.
9. **Operational Boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an early warning indicator to ensure the Authorised Limit is not breached.
10. **Prudential Code** – The Local Government Act 2003 requires the Council to ‘have due regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

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11. **PWLB** – Public Works Loan Board. An institution managed by the Government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.