

## Glossary of Terms - Treasury

### **Bank Rate**

The rate of interest set by the Bank of England as a benchmark rate for British banks.

### **Borrowing**

Loans taken out by the authority to pay for capital expenditure or for the prudent management of the Council's financial affairs, which are repayable with interest.

### **Counterparty**

One of the parties involved in a financial transaction.

### **Credit Criteria**

The parameters used as a starting point in considering with whom the council may place investments, aimed at ensuring the security of the sums invested.

### **Credit Rating**

A credit rating assesses the credit worthiness of an individual, corporation, or even a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the subject being able to pay back a loan. Ratings usually consist of a long term, short term, viability and support indicators. The Fitch credit rating of F1 used by the Council is designated as "Highest Credit quality" and indicates the strongest capacity for timely payment of financial commitments.

### **Debt Management Account Deposit Facility (DMADF)**

The Debt Management Office provides this service as part of its cash management operations and of a wider series of measures designed to improve local and central government's investment framework and cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

### **Debt Restructuring**

Debt restructuring is a process that allows an organisation to reduce, renegotiate and undertake replacement debt.

### **Diversification of Investments**

The process of creating a portfolio of different types of financial instruments with regard to type, price, risk issuer, maturity, etc. in order to reduce the overall risk of the portfolio as a whole.

### **Duration (Maturity)**

The length of time between the issue of a security and the date on which it becomes payable.

### **External Borrowing**

Money borrowed from outside of the Council.

### **Fitch Credit Ratings**

A commercial organisation providing an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. The opinion is usually provided in the form of a credit rating.

### **Fixed Rate**

An interest rate that does not change over the life of a loan or other form of credit.

### **Internal Borrowing**

Money borrowed from within the Council, sourced from temporary internal cash balances.

### **Investments**

The purchase of financial assets in order to receive income and/or make capital gain at a future time, however with the prime concern being security of the initial sum invested.

### **Lender Option Borrower Option Loans (LOBOs)**

Loans to the Council where the lender can request a change in the rate of interest payable by the Council at pre-defined dates and intervals. The Council at this point has the option to repay the loan.

### **Liquidity**

The ability of the Council to meet its financial obligations as they fall due.

### **Market Loans**

Borrowing that is sourced from the market i.e. organisations other than the Public Works Loan Board or a Public Body.

### **Minimum Revenue Provision**

This is the amount which must be charged to the authority's revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities. The prudent amount is determined in accordance with guidance issued by WG. This has the effect of reducing the Capital Financing Requirement (CFR).

### **Money Market Funds**

An investment fund which pools the investments of numerous depositors, spreading those investments over a number of different products and counterparties.

### **Prudential Code for Capital Finance**

The system introduced on 1 April 2004 by Part 1 of the Local Government Act 2003 which allows local authorities to borrow without Government consent, provided that they can afford to service the debt from their own resources and

that any such borrowing is prudent and sustainable. This requires the preparation and approval of various indicators.

### **Public Works Loans Board (PWLB)**

The Public Works Loans Board is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

### **Security**

Protecting investments from the risk of significant loss, either from a fall in value or from default of a counterparty.

### **Sovereign Credit Ratings**

The credit rating of a country. It indicates the risk level of the investing environment of a country, taking into account political risk and other factors.

### **Specified Investments**

A term defined in WG investment regulations, referring to any investments for less than one year, in sterling, and where the principal sum to be repaid at maturity is the same as the principal sum invested. An investment not meeting the above criteria would be termed a Non-specified investment

### **Sterling**

The monetary unit of the United Kingdom (the British pound).

### **Term Deposits**

A term deposit is a money deposit at a banking institution that cannot be withdrawn for a certain "term" or period of time.

### **UK Government Gilts**

Fixed-interest debt securities issued or secured by the British Government. Gilts are always denominated in sterling though the Government occasionally also issues instruments in other currencies in the Eurobond market or elsewhere.

### **Variable Rate**

An interest rate that changes periodically in line with market rates.

### **Yield**

The annual rate of return paid out on an investment in securities, expressed as a percentage of the current market price of the relevant securities.