

APPENDIX D

GLOSSARY OF TERMS

Authorised limit

The maximum level of debt that the council can have during the year. This should allow sufficient headroom over the operational limit to cover exceptional circumstances.

Business reserve account

An account for depositing surplus cash, which offer high interest rates and flexible access.

Capital financing costs

Interest cost in external debt plus the minimum revenue provision (MRP).

Capital financing requirement (CFR)

The amount of capital expenditure already incurred which has not yet been directly funded from capital receipts, the revenue budget, capital grants or contributions. It measures the underlying need to borrow for a capital purpose, although this borrowing may not necessarily take place externally. This can be financed by external borrowing or by borrowing from internal balances.

- The CFR of a local authority will increase whenever capital expenditure is incurred.
- Where capital expenditure is resourced immediately (from capital receipts, direct charge to revenue or capital grant/contributions), the CFR will reduce at the same time that the capital expenditures is incurred, resulting in no net increase to the CFR.
- Where capital expenditure is not resourced immediately, this will result in a net increase to the CFR that represents an increase in the underlying need to borrow for a capital purpose. This will be the case whether or not external borrowing actually occurs.
- The CFR may be reduced over time by future applications of capital receipts or capital grants/contributions, or by future charges to revenue.
- The CFR is reduced when the minimum revenue provision (MRP) or loans fund repayments are made to revenue.
- The CFR will increase when a new other long-term liability is entered into.

Credit rating

Evaluates the credit worthiness of a debtor, especially a business (company) or a government. It is an evaluation made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default.

The council uses Moody's ratings to determine whether an organisation should be an approved counterparty. These are explained at the attached link:

http://en.wikipedia.org/wiki/Moody%27s#Moody.27s_credit_ratings

Credit risk

The risk that the debtor will default on their obligations.

Debt Management Account Deposit Facility (DMADF)

Provided by the Debt Management Office (DMO), users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.

Interest rate risk

The risk that the value of an investment (particularly bonds) will change due to a rise in the level of interest rates.

Lender's option/borrowers option loans (LOBO)

A loan that provides the lender with the right to choose a new interest rate at any time. The borrower may then decide whether to pay the new rate or redeem the loan.

London Interbank Bid Rate (LIBID)

The average interest rate which major London banks borrow Eurocurrency deposits from other banks. LIBID is calculated through a survey of London banks to determine the interest rate which they are willing to borrow large Eurocurrency deposits.

Liquidity risk

The risk stemming from the inability to trade an investment (usually an asset) quickly enough to prevent or minimise a loss.

Market risk

The risk that the value of an investment will decrease due to movements in the market.

Minimum revenue provision (MRP)

The amount set aside from revenue for the repayment of external debt principal in respect of the council's capital programme.

Money market funds (MMFs)

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies.

Net revenue stream

The council's approved net budget for the year.

Operational boundary

The estimated maximum level of external debt to allow the council to carry out its forecast operating activities.

Public Works Loan Board (PWLB)

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.

Time deposit

A savings account or certificate of deposit held in a financial institution for a fixed-term with the understanding that the depositor can only withdraw by giving advanced notice.