Appendix 2

Treasury Management Glossary of Terms

Affordable Capital Expenditure Limit – The amount that the Council can afford to allocate to capital expenditure in accordance with the requirements of the Local Government Scotland Act 2003 and supporting regulations.

Authorised Limit for External Debt – This is the limit for total Council external debt as set by the Council based on debt levels and plans.

Annuity – Method of repaying a loan where the payment amount remains uniform throughout the life of the loan, therefore the split varies such that the proportion of the payment relating to the principal increases as the amount of interest decreases.

Bank of England – The central bank for the UK with ultimate responsibility for setting interest rates (which it does through the Monetary Policy or "MPC").

Bank Rate – The interest rate for the UK as set each month by the MPC (previously referred to as the "Base Rate)

Link – are the Council's Treasury Management advisors who provide advice on borrowing strategy, investment strategy, and vetting of investment counterparties, in addition to ad hoc guidance throughout the year. This was formerly provided by Capita, prior to that company being purchased by Link.

Capital Expenditure – expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set out in the Code of Practice on Local Authority Accounting in the United Kingdom and for which the Council are able to borrow.

Capital Financing Requirement (CFR) – is the Prudential Indicator that generally represents the underlying need to borrow for capital expenditure (including PPP schemes).

CIPFA – The Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations, also the standard setting organisation for Local Government Finance.

Counterparty – an institution (e.g. a bank) with whom a borrowing or investment transaction is made.

Consumer Prices Index (CPI) is a means of measuring inflation (as is Retail Prices Index RPI). The CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax).

Credit Default Swap – an agreement that the CDS seller will compensate the buyer in the event of a loan default. The buyer of the CDS makes a series of payments (the CDS "fee" or "spread") to the seller and, in exchange, receives a payoff if the loan defaults. In the event of default the buyer of the CDS receives compensation (usually the face value of the loan), and the seller of the CDS takes possession of the defaulted loan. CDS data helps to monitor how the market views credit risk of any entity on which a CDS is available, which can be compared to that provided by the Credit Rating Agencies.

Credit Rating – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. It is based on any information available regarding the institution: published results, Shareholders' reports, reports from trading partners, and also an analysis of the environment in which the institution operates (e.g. its home economy, and its market sector). The main rating agencies are Fitch, Standard & Poor's, and Moody's. They analyse credit worthiness under four headings:
Short Term Rating – the perceived ability of the organisation to meet its obligations in the short term, this will be based on measures of liquidity.
Long Term Rating – the ability of the organisation to repay its debts in the long term, based on opinions regarding future stability, e.g. its exposure to 'risky' markets.
Individual/Financial Strength Rating – a measure of an institution's soundness on a stand-alone basis based on its structure, past performance and credit profile.
Legal Support Rating – a view of the likelihood, in the case of a financial institution failing, that its obligations would be met, in whole or part, by its shareholders, central bank, or national government.
The rating agencies constantly monitor information received regarding financial institutions, and will amend the credit ratings assigned as necessary.

DMADF and the DMO – The DMADF is the 'Debt Management Account Deposit Facility'; this is highly secure fixed term deposit account with the Debt Management Office (DMO), part of Her Majesty's Treasury.

European Central Bank (ECB) – This is the central bank for the Eurozone and is the equivalent of the Bank of England. The ECB set the interest rates for the Eurozone.

Federal Reserve this is the central bank for the US and is the equivalent of the Bank of England.

Gilts – The name given to bonds issued by the U K Government. Gilts are issued bearing interest at a specified rate, however they are then traded on the markets like shares and their value rises or falls accordingly. The Yield on a gilt is the interest paid divided by the Market Value of that gilt.

E.g. a 30 year gilt is issued in 1994 at £1, bearing interest of 8%. In 1999 the market value of the gilt is £1.45. The yield on that gilt is calculated as 8%/1.45 = 5.5%.
See also PWLB.

Investment Regulations – The Local Government in Scotland Act 2003 allows the Scottish Ministers to introduce regulations to extend and govern the rules under which Scottish Council's may invest funds. The Local Government Investments (Scotland) Regulations 2010 came into effect on 1st April 2010.

LIBID – The London Inter-Bank Bid Rate, the rate which banks would have to bid to borrow funds from other banks for a given period. The official rate is published by the Bank of England at 11am each day based on trades up to that time.

LIBOR – The London Inter-Bank Offer Rate, the rate at which banks with surplus funds are offering to lend them to other banks, again published at 11am each day.

Liquidity – Relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.

Maturity – Type of loan where only payments of interest are made during the life of the loan, with the total amount of principal falling due at the end of the loan period.

Money-Market Funds – Open-ended mutual fund that invests in short-term debt securities such as government bonds and commercial credit notes. Money market funds are widely regarded as being as safe as bank deposits yet providing a higher yield. Regulated by government agencies these are an important providers of liquidity.

MPC - or Monetary Policy Committee of the Bank of England that meets each month to set the bank rate for the UK.

Net Borrowing Requirement – This is the difference between the Council's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement.

Operational Boundary – This is the level of debt set by the Council, which is lower than the Authorised Limit and which the Council debt levels should not normally exceed during normal operations.

Prudential Code – Councils are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements include the production of Prudential Indicators. The Prudential Code was revised in November 2017.

Prudential Indicators – Indicators set out in the Prudential Code that will help Council's to meet requirements in relation to borrowing limits or which will helps Council's demonstrate affordability and prudence with regard to their prudential capital expenditure.

Policy and Strategy Documents – Documents required by the CIPFA Code of Practice on Treasury Management in Local Authorities. These set out the framework for treasury management operations during the year.

Public Works Loans Board (PWLB) – A central government agency providing long and short term loans to Local Authorities. Rates are set twice a day at a margin over the Gilt yield (see Gilts above). Loans may be taken at fixed or variable rates and as Annuity, Maturity, or EIP loans (see separate definitions) over periods of up to fifty years. Financing is also available from the money markets, however because of its nature the PWLB is generally able to offer better terms.

Shared Equity – The Shared Equity Scheme is a Scottish Government initiative which aims to help people on low to moderate income to purchase a property. The individual(s) owns the property outright, but the interests of the Council are protected by way of a standard security in the property.

Yield – see Gilts