GLOSSARY: DEVELOPMENT FINANCE

Understanding terminology commonly used by financial and development sectors

1. **BALANCE SHEET** – document which provides a snapshot of the health of a business and shows the value of its assets and liabilities, at a particular point in time.

2. **INCOME & EXPENDITURE STATEMENT** – (or "Profit and Loss Account") details money in and money out of a business, and financial performance over a period of time (usually annually). In reviewing a business and to determine trends, three or more years of these statements should be analysed.

3. **CASH FLOW STATEMENT** – this details purely the cash outgoings/incomings of the business and separates these into cash flow for: operating, investing and financing activities.

4. **ASSET** – items that the business owns or controls. Assets are described as either "current" or "non-current". The most 'liquid' assets are those most readily turned into cash are "current". "Non-current" assets are those for use within the business and not directly for resale (eg equipment). Assets can also be tangible (eg property) or intangible (eg intellectual property).

5. **LIABILITIES** – the debts which a business holds.

6. **CAPITAL** – amount invested by the owner in the business.

7. **REVENUE** – gross income (after VAT) earned from trading. Sometimes referred to as "turnover".

8. **LAND HOLDINGS** – (sometimes known as "Land bank") land held with the aim of achieving enhanced value through development . Housebuilders purchase the land with their own cash or using loans.

9. **IMPAIRMENT** – the method of reducing the value of assets held on the balance sheet. When an asset on the balance sheet is reduced in value, the reduction in value is taken to the profit and loss account as a loss, which in turn reduces the net profit figure. This can detrimentally effect loan agreements and breach existing covenants.

10. **COVENANT** – conditions that the borrower must comply with in order to adhere to a loan agreement. If the borrower 'breaks covenant' the loan can be considered in default, and the lender has the right to demand payment in full. Banks add covenants to manage risk.

11. **STANDARD SECURITY** – a charge on the land typically applied by a lender to provide security for the loan. Such charges can be applied on a ranking basis (eg 1st ranking, 2nd ranking). Lenders will usually insist on a 1st ranking security.

12. **LOAN TO VALUE** – a ratio used to compare the amount of loan used to finance a project, in comparison to the cost of the completed asset/cost in creating that asset. Eg: if a project cost £1m, and the borrower asked for £800,000 lending, the loan to value ratio would be 80%.

This glossary has been produced in partnership with RTPI Scotland, Scottish Property Federation (SPF), Homes for Scotland (HfS) and the Royal Institution of Chartered Surveyors (RICS)