Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:	**TREASURY MANAGEMENT MID YEAR UPDATE 2018/19**
SLT Lead:	**Jane West** **Chief Operating Officer**
Report Author and contact details:	**Reena Patel / Stephen Wild** **Treasury Manager / Head of Pensions and Treasury** **01708432485** **Reena.Patel@onesource.co.uk**
Policy context:	**The Code of Practice on Treasury Management (Revised 2017) requires that Council be provided with a mid-year report on treasury activities.**
Financial summary:	**There are no direct financial implications from the report.**

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Places making Havering	[x]
Connections making Havering	[x]

Summary

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The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year end).

The Authority's treasury management strategy for 2018/19 was approved at a meeting of the Authority in February 2018.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control of risk.

The key highlights of the Mid-Year report are as follows:

- Investment portfolio average quarterly return was 0.85% as at 30/9/18 compared against the average quarterly 3 month LIBOR benchmark of 0.73%.
- The Treasury Advisor's benchmarking club of 15 London Boroughs had an average return of 0.84% in Q2 on comparable internally managed investments.
- No breach of the Authority's prudential indicators and treasury indicators.

RECOMMENDATIONS

- To note the treasury management activities for the half year detailed in the report.
- To note Section 7 on the separation of structures of larger UK Banks into retail (ring fenced) and investment (non ring-fenced) banks.

REPORT DETAIL

1. Background

1.1 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the full council, (or cabinet, with responsibility retained by the full council), before 31st March 2019.

2. Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

This is the Mid-Year Review Report required by the Code and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- Treasury Management Summary for the half year;
- A review of the Council's borrowing strategy for 2018/19;
- A review of the Council's investment portfolio for 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3. Economics and interest rates

3.1 Economics update – UK

The Council's Treasury Advisor, Link Asset Services, has provided the following commentary as at 30 September 2018:

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%.

In mid-September, the Bank of England's MPC chose to hold the bank rate at 0.75% following the August hike. Bank Governor Mark Carney reiterated that the Committee is in no rush to raise rates back to more "normal" levels, and with Brexit *uncertainty coming to the fore; markets are showing little to no expectation of a further rate hike until Q2/Q3 2019.*

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components. It was back to 2.4% in September and is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate.

3.2 Interest rate forecasts

Link Asset Services, has provided the following forecast:

	Link Asset Services Interest Rate View										
	Now	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Bank Rate	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 month LIBID	0.68%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 month LIBID	0.78%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 month LIBID	0.95%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	1.79%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.20%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.69%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.59%	2.40%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

Link have the view that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The 50 year PWLB rate is expected to be around 2.80% in March 2019, gradually rising to 3.30% by March 2021. Also, as seen in the table above the 50 year PWLB rate is slightly cheaper than the 25 year PWLB rate, and whilst this is an important factor to take into consideration when undertaking new borrowing, the profile of capital spend would have overriding influence on the borrowing term.
PWLB is priced off the Gilt so reflects the current yield curve – PWLB certainty rate is 80bps above this.

The market dictates the Gilt curve, but in general terms demand from Pension Funds for longer dated Gilts (to match their liabilities) means that prices have increased and therefore yields have fallen below the earlier periods such as 25 years.

The results from 'Brexit' negotiations, low economic growth and inflation will have an impact on these interest projections.

4. Treasury Management Summary

The treasury management position as at 30th September 2018 and the change over the period is shown in Table 1 below.

Table 1: Treasury Management Summary as at 30th September 2018

	31.3.18 Balance £m	Movement £m	30.9.18 Balance £m	30.9.18 Rate %
Long-term borrowing	210.234		210.234	3.60
Short-term borrowing	30.252	-30.100	0.152	0.38
Total borrowing	**240.486**	**-30.100**	**210.386**	**3.59**
Long-term investments	33.000	5.000	38.000	1.61
Short-term investments	150.850	-9.100	141.750	0.77
Cash and cash equivalents	44.739	-10.102	34.637	0.83
Total investments	**228.589**	**-14.202**	**214.387**	**0.93**
Net borrowing	**11.897**	**-15.898**	**-4.001**	**2.66**

Temporary borrowing was undertaken at year end to cover higher than normal BACS runs towards the year end. At the same time LBH received grants (e.g. schools capital improvement grant 18/19 of £4.6m which was paid early) and other miscellaneous receipts at year end not factored in the cash flow plan. The surplus temporary borrowing was invested in money market funds and repaid in the first two weeks of April. Investments at 30.09.17 on a comparable basis were £205m.

5. Borrowing Strategy

5.1 Borrowing Position

The 30th September 2018 borrowing position is show in Table 2 below.

Table 2: Borrowing Position

	Balance at 31.03.18 £m	Raised £m	Repaid £m	Balance at 30.09.18 £m	Weighted Average Rate %
Loans					
PWLB	203.234	-	-	203.234	**3.60**
Banks (LOBO)	7.000	-	-	7.000	**3.60**
Local Authorities and Other (Short Term Borrowing)	30.252	15.000	-45.100	0.152	**0.38**
Total Loans	**240.486**	**15.000**	**-45.100**	**210.386**	**3.59**

The Council's capital financing requirement (CFR) for 2018/19 was forecasted at £292.3m. At period 6, the CFR forecasts have been revised down to £283m per forecasted capital spend received from service departments.

The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

5.2 New borrowing

Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

As a result no long term borrowing was undertaken during the half year but this will be kept under continuous review as capital investment plans are developed and spending is monitored.

The graph and table in Appendix A show the movement in PWLB certainty rates for the first six months of the year to date:

5.3 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

5.4 LOBO's

The Authority holds a £7m LOBO loan, where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The LOBO loan has options during 2018/19, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will consider repaying the LOBO loan at no break cost if the opportunity arises.

6. Investment Portfolio 2018/19

6.1 Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. The investment position during the half year is shown in Table 3 below.

Table 3: Investment Activity

	31.3.18 Balance	Movement	30.09.18 Balance	Weighted Average Rate %
Investments				
Banks & Building Societies (Fixed Unsecured)	49.000	18.000	67.000	0.75
Banks & Building Societies (Call & Notice Accounts Unsecured)	23.202	6.898	30.100	0.90
Banks & Building Societies (Fixed Secured)	8.800	-7.800	1.000	1.03
Government (incl. Local Authorities)	131.850	-27.100	104.750	0.98
Money Market Funds	12.737	-4.200	8.537	0.68
Corporate Bonds and Loans	3.000	0.000	3.0000	4.00
Total investments	**228.589**	**14.202**	**214.387**	**0.93**

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

A full list of investments held as at 30th September 2018 is in **Appendix B**.

6.2 Budgeted Income and Return

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 4 below:

Table 4: 2018/19 Treasury Investment Performance to 30.09.18

	Benchmark Return 3 month LIBOR (Average Quarterly Rate) %	Budgeted Rate of Return %	Budgeted Interest (Full Year) £m	Actual Rate of Return %	Actual Interest to end of Quarter £m
Quarter 1	0.68	0.60	1.105	0.81	0.449
Quarter 2	0.78	0.60	1.105	0.88	0.496
Average / Total	0.73	0.60	1.105	0.85	0.945

6.3 Budgeted Capital Financing Costs (Interest and MRP Costs)

Table 5: 2018/19 Budgeted Capital Financing Costs

Capital Financing Costs		Revised Budget £m	FY Forecast £m
Interest Payable	Existing Long Term Loans	£7,787	£7,787
Interest Payable	Regenerations Projects	£0.877	0.00
Minimum Revenue Provision		£2.084	£2.084

The interest earned to date and the forecast capital financing costs take into account a forecast reduction in capital expenditure during the year from £185m to £118m.

7. Other

7.1 UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not.

The Authority will continue to assess the new-formed entities in the same way that it does others and will review the position in the Treasury Management Strategy Statement for 2019/20.

7.2 IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. Based on the current investment portfolio the impact on this authority is not likely to be significant.

The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for an override to the requirements of the standard. There is also a proposal to time limit the override if it was granted to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

7.3 Money Market Fund Regulation (MMF)

The new EU regulations for Money Market Funds (MMFs) were approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The MMF sector is now in the last stages of introducing these new regulations. These will see existing non-government Constant Net Asset Value (CNAV) funds convert to Low Volatility Net Asset Value (LVNAV) pricing. Note that government-type funds will remain as "CNAV" funds under the new regulations.

This change is expected to occur in the very early stages of 2019. The 2018/19 Treasury Management Strategy Statement as approved by Council in February allows the use of LVNAV money market funds for Treasury Management purposes.

7.4 Local Authority Lending

Over the last few years inter Local Authority lending and borrowing activity has gradually been increasing within the money markets. Whilst Local Authorities cannot provide a formal guarantee nor have the power to offer security they are required by statute to repay debt first out of revenues, before any spend, which is usually sufficient to give quasi UK Government ratings.

However over the last decade Local Authorities have faced significant financial pressures due to constant cuts in government funding on one hand and increasing demographic pressures on the other.

The Authority's treasury advisors central view is that all local authorities I have the same credit risk as the mechanisms that exist within the local authority legislative framework effectively prevent a local authority from going bankrupt.

This is reinforced by a statement from the National Audit Office, entitled Financial Sustainability of Local Authorities, dated November 2014, which states that:

"A legal framework at the core of the local government accountability system effectively prevents local authorities becoming insolvent. Local authorities cannot borrow to finance revenue expenditure or run deficits."

7.5 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to members' attention in treasury management update reports.

8. Compliance with Prudential and Treasury Indicators

It is a statutory duty for the Authority to determine and keep under review the affordable borrowing limits. The Authority's approved 2018/19 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the Treasury Management Strategy Statement (TMSS) in February 2018.

During the half year, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority's Treasury Management Practices. An update on indicators and limits are reported in **Appendix C** of this report.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from this report.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report.

Equalities implications and risks:

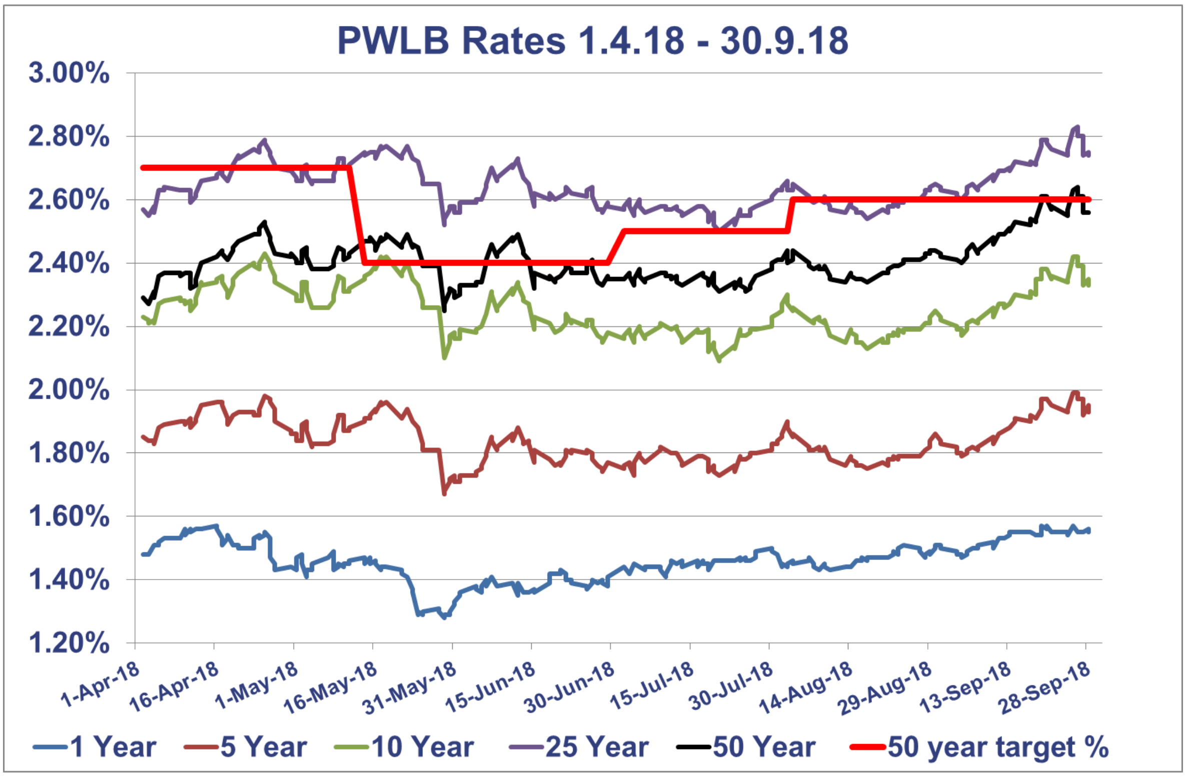
There are no Equalities implications arising from this report.

BACKGROUND PAPERS

None.

Appendix A

Movement in PWLB certainty rates for the first six months of 2018/19



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

Appendix B

Table 1 breakdown of Deposits at 30th September 2018

Institution Type	Counterparty	Start Date	Maturity Date	Principal O/S
UK Bank	Close Brothers	20/04/2018	22/10/2018	5.000
UK Bank	Close Brothers	27/07/2018	28/01/2019	5.000
UK Bank	Lloyds Bank plc	15/05/2018	15/11/2018	5.000
UK Bank	Lloyds Bank plc	01/06/2018	30/11/2018	5.000
UK Bank	Lloyds Bank plc	03/08/2018	04/02/2019	10.000
UK Bank	Santander UK plc (Covered Bond)	31/08/2016	08/07/2019	1.000
UK Bank - Call Account	National Westminster Bank plc	28/03/2013	(blank)	0.100
UK Bank - Notice Account	Goldman Sachs Int Bank (95 Days)	06/07/2018	(blank)	5.500
UK Bank - Notice Account	Goldman Sachs Int Bank (95 Days)	16/07/2018	(blank)	4.500
UK Bank - Notice Account	Lloyds Bank plc	15/05/2018	(blank)	5.000
UK Bank - Notice Account	Santander UK plc	01/06/2018	(blank)	15.000
Government	Ards and North Down Borough Council	02/05/2018	02/11/2018	5.000
Government	Cambridge Count~~it~~y Council	08/05/2018	09/11/2020	5.000
Government	Dorset County Council	08/01/2018	07/01/2019	5.000
Government	Dundee City Council	20/10/2017	17/10/2018	5.000
Government	Falkirk Council	15/02/2018	15/11/2018	5.000
Government	Gateshead Metropolitan Borough Council	16/10/2017	15/10/2018	5.000
Government	Lancashire County Council	04/11/2015	05/11/2018	5.000
Government	Lancashire County Council	15/11/2016	15/11/2018	5.000
Government	Lancashire County Council	17/04/2018	17/04/2019	5.000
Government	Lincoln City Council	31/01/2018	30/01/2019	1.750
Government	London Borough of Croydon	20/09/2018	12/09/2019	5.000
Government	London Borough of Haringey	10/09/2018	09/05/2019	4.000
Government	London Borough of Islington	26/04/2016	26/04/2021	5.000
Government	Mid Suffolk District Council	06/07/2018	06/07/2020	5.000
Government	Newcastle upon Tyne City Council	29/02/2016	26/02/2021	5.000
Government	Newcastle upon Tyne City Council	03/04/2017	03/04/2019	5.000

Institution Type	Counterparty	Start Date	Maturity Date	Principal O/S
Government	Newcastle upon Tyne City Council	02/02/2018	01/02/2019	5.000
Government	Northumberland County Council	01/11/2016	01/11/2018	5.000
Government	Northumberland County Council	16/11/2016	16/11/2020	5.000
Government	Northumberland County Council	16/11/2016	16/11/2021	5.000
Government	Powys County Council	22/02/2018	22/02/2021	5.000
Government	Uttlesford District Council	19/02/2018	19/10/2018	4.000
Non UK Bank	Australia and New Zealand Banking Group	05/06/2018	05/12/2018	5.000
Non UK Bank	Australia and New Zealand Banking Group	15/06/2018	13/12/2018	5.000
Non UK Bank	Commonwealth Bank of Australia	06/04/2018	05/10/2018	5.000
Non UK Bank	DBS Bank Ltd	03/08/2018	04/02/2019	5.000
Non UK Bank	Rabobank Nederland	13/10/2017	12/10/2018	5.000
Non UK Bank	Rabobank Nederland	16/10/2017	15/10/2018	5.000
Non UK Bank	Rabobank Nederland	17/10/2017	16/10/2018	5.000
Non UK Bank	United Overseas Bank Limited	13/10/2017	12/10/2018	2.000
Money Market Funds	BNP Paribas InstiCash GBP I Dis GBP	21/01/2017	(blank)	4.387
Money Market Funds	Insight Liquidity Sterling C3	16/01/2017	(blank)	4.150
Corporate Bond	Rockfire Capital Ltd	15/02/2018	21/04/2022	3.000
Grand Total				**214.387**

Appendix C

Compliance Report

All treasury management activities undertaken during the half year complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

1.1 Interest Rate Exposures

1.1.1 This indicator is set to control the Authority's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of gross principal borrowed will be:

Table1: Interest rate exposure activity

	2018/19 Limit %	2018/19 Q2 Actual %	2019/20 Limit %	2021/22 Limit %
Upper limit on fixed interest rate exposure	100	96.60	100	100
Upper limit on variable interest rate exposure	25	3.40	30	35

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to reduce interest rate exposure. The table excludes Salix Finance loans as these are held at zero interest hence no interest rate exposure.

1.2 Maturity Structure of Borrowing

1.2.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 2: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40	0	0.00
12 months and within 24 months	40	0	3.33
24 months and within 5 years	60	0	0.53
5 years and within 10 years	75	0	26.89
10 years and above	100	0	69.25

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.3 Principal Sums Invested for Periods Longer than 365 days

1.3.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.3.2 The limits set in the 2018/19 treasury management strategy in comparison to the half year are set below. It is the authority's policy to classify available for sale investments with maturities exceeding one year as short term investments.

Table 3: Investments for periods longer than 365 days

	2017/18 Limit £m	2018/19 Actual at 30.09.18 £m	2018/19 Limit £m
Limit on principal invested beyond year end	75	38	75

1.4 Gross Debt and the Capital Financing Requirement (CFR)

1.4.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 4: Gross debt and the CFR

	31.03.18 Actual £m	31.03.19 Original Estimate £m	31.03.19 Revised Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Long Term External Debt*	210.234	210.234	210.234	230.234	260.234
CFR	264.469	292.252	283.134	339.253	360.140
Internal Borrowing	54.235	82.018	72.900	109.019	99.906

**Excluding service loans (e.g. Salix)*

1.4.2 Total debt is expected to remain below the CFR during the year. The actual debt levels are monitored against the Operational Boundary and authorised Limit for External Debt, below.

1.5 Operational Boundary for External Debt

1.5.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Table 5: Operational Boundary

Operational Boundary	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Borrowing	360.100	369.100	367.500
Other long-term liabilities	10.000	10.000	10.000
Total	370.100	379.100	377.500

1.6 Authorised Limit for External Debt

1.6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 6: Authorised limit for external debt

Authorised Limit	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Borrowing	448.200	458.600	457.900
Other long-term liabilities	10.000	10.000	10.000
Total Debt	458.200	468.600	467.900
Long Term Debt	210.200	210.200	230.200
Headroom	**248.000**	**258.400**	**237.700**

Glossary of Terms **Appendix D**

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail**-in is the opposite of a **bail**-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.