Havering
LONDON BOROUGH

AUDIT COMMITTEE 28 JULY 2020

Subject Heading:	**Annual Treasury Management Report 2021/22**
SLT Lead:	**Dave McNamara Section 151 Officer**
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Policy context:	This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2021/22. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management,("the CIPFA TM code") and the CIPFA Prudential Code for Capital Finance in Local Authorities, ("the Prudential Code")
Financial summary:	**The Treasury Strategy supports the Authority's Budget strategy.**

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

The CIPFA 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 Statement (TMSS) 2021/22 was approved by Full Council on the 3 March 2021. This backward looking report covers the delivery of the TMSS in 2021/22.

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

RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2021-22 as detailed in the report.

KEY HIGHLIGHTS

- Investment income outturn overachieved budget by £0.076m and interest payable underspent the budget by £3.866m (of which £2.515m was General Fund) delivering a net underspent on the capital finance budget in 2021/22 of £3.942m.
- The Authority's weighted average return on its investments outperformed that of the treasury adviser's benchmark London Local Authority Group.
- During 2021/22 this Authority operated within the treasury limits and prudential indicators set out in the TMSS.

REPORT DETAIL

1. Background

1.1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the Authority should receive the following reports:

- An annual treasury strategy in advance of the year (Council 03/03/2021)
- A mid-year, (minimum), treasury update report (Audit Committee 22/02/2022)
- An annual review following the end of the year describing the activity compared to the strategy, (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

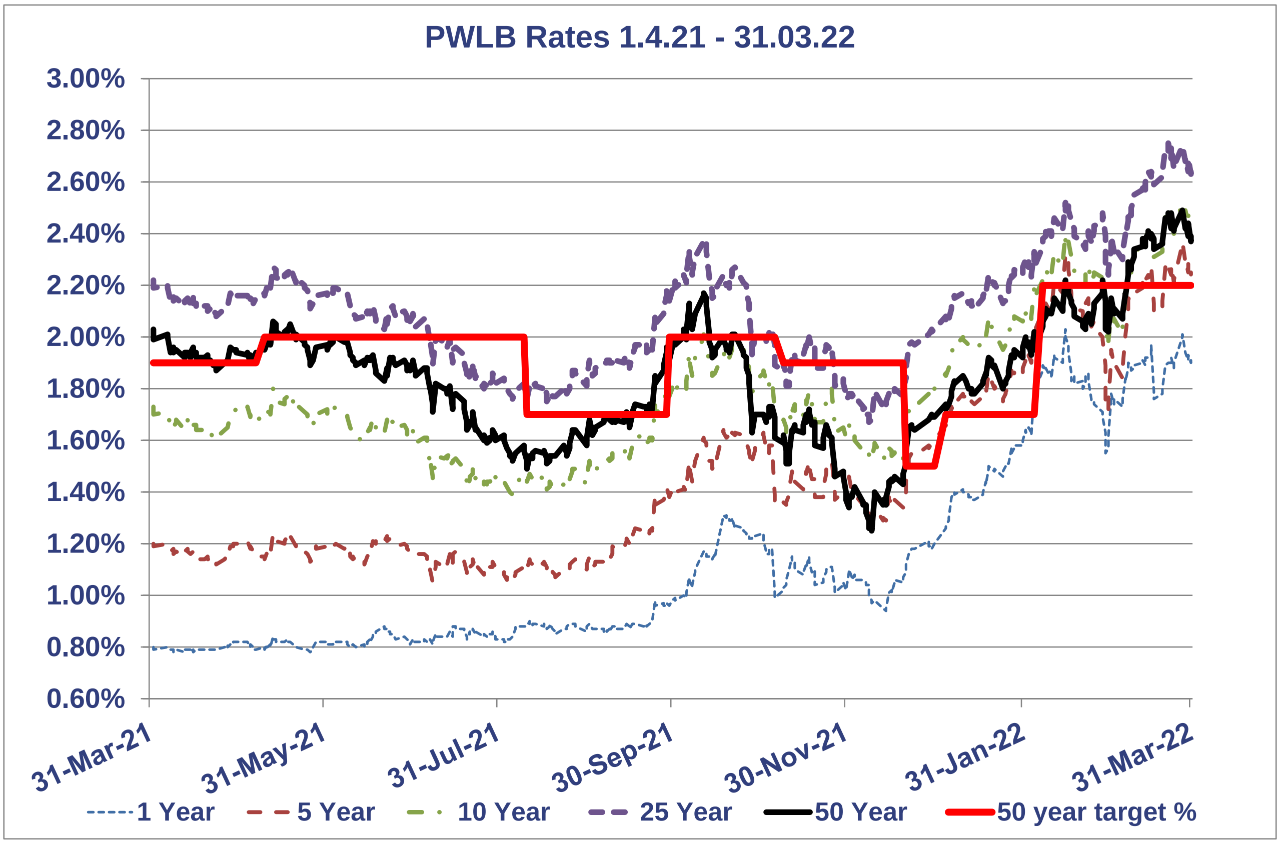
1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) raised its bank rate from 0.10% to 0.25% at its meeting on 16/12/2021, 0.50% at its meeting of

4 February 2022 and then to 0.75% in March 2022. This was in response to rising CPI inflation which rose to 6.2% in March 2022 exceeding the BoE target 2%. The BoE MPC has sought to balance economic recovery with the need to tame rising inflation. CPI inflation was boosted by the energy crisis as western economies sought to reduce their dependency on Russian energy supplied following the invasion of Ukraine.

UK Gilt yields (which drive PWLB interest rates) had fallen back toward the back end of 2021 but these started trending up in the final quarter with 2 year gilt yields reaching their 11-year high and 10 year yields at 1.65%; close to their six year high. Gilt yields across all maturities have been dragged higher since by market concerns over rising and persistent high inflation. The BoE MPC stands by its forecast that CPI inflation will peak later this year and then start falling back to its target rate in the next 2-3 years and that is expected to drag gilt yields back down.

Graph 1: PWLB Rates 2021/22



2. Treasury Management Summary

2.1 The treasury management activity in year is shown in table 1 below:

Table 1: Treasury management summary as at 31st March 2022

	01.04.21		31.03.22	2021-22	2021-22	2021-22
	Balance outstanding	Movement	Balance outstanding	interest	Average Balance	Weighted Average Rate
	£m	£m	£m	£m	£m	%
LONG-TERM BORROWING						
PWLB	258.234	48.890	307.124	8.366	274.300	3.05
LOBO	7.000	0.000	7.000	0.252	7.000	3.60
Short-term borrowing	10.453	(9.600)	0.853	0.002	1.382	0.15
Total borrowing	**275.687**	**39.290**	**314.977**	**8.620**	**282.682**	**3.06**
INVESTMENTS						
Long-term investments	0.000	0.000	0.000	0.000	0.000	0.00
Short-term investments	110.000	(25.000)	85.000	0.342	95.253	0.35
Cash and cash equivalents	11.100	40.900	52.000	0.030	42.142	0.07
Total investments	**121.100**	**15.900**	**137.000**	**0.372**	**137.395**	**0.28**
Net borrowing	**154.587**	**23.390**	**177.977**	**8.248**	**145.287**	**2.78**

3. Borrowing strategy

3.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2020/22 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its approved capital programme and how it has been financed. The Authority's capital finance budget includes provision to fund the capital programme's expected borrowing requirement from new long term fixed rate debt.

Table 2: CFR and its financing 2021/22

£m	01/4/21 Act	31/3/22 Revised Budget	31/3/22 Act
GF CFR	190	235	**189**
HRA CFR	212	349	**280**
Total CFR	**402**	**584**	**469**
Financed by:			
Internal cash	109	296	**154**
External long term Debt:			
HRA	220.2	220	**220**
GF	45.4	71	**95**

3.2 The short term strategy involved using the Authority's cash balances to fund the 2021/22 borrowing requirement in the capital programme. In July 2021 the S151 officer took a decision to increase long term borrowing by £121m to fund historic capital spend and replace temporary internal borrowing. There were two £25m 50 year Fixed PWLB trades executed: one each in November and December at 1.70% and 1.43% respectively. These trades were executed below the average 50Y PWLB Certainty rate 1.85% for the year and below the 10Y and 25Y rate as shown in table 3 below.

Table 3: HIGH/LOW/AVERAGE PWLB RATES FOR 2021/22

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

3.3 The Authority's debt portfolio is fixed and mainly on long maturities (average of 26 years) and with inflation currently running higher than 2.89% the real value of that debt is set to fall.

3.4 The S151 officer balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2021/22 has meant the Authority's cash balances have remained higher than planned. This meant the focus was on deferring long term borrowing and this strategy resulted in significant savings in the 2021/22 capital finance budget detailed in table 4 below:

Table 4: Capital finance outturn 2021/22

Item	**HRA £m**	**General Fund £m**
Interest payable		
Budget – revised	7.756	4.766
Outturn	6.405	2.251
Net Underspend £3.866m	**1.351**	**2.515**
Interest receivable		
Budget – revised	0	(0.415)
Outturn*	0.105	(0.386)
Net Overachievement £0.076m	**0.105**	**(0.029)**

* includes £0.121m from a non-treasury working capital loan to Authority owned subsidiary.

3.5 Debt Rescheduling
The possibility of debt rescheduling was regularly discussed with our treasury adviser. However opportunities have been almost non-existent in the current economic climate. The current PWLB rules on redemption are prohibitive and costly.

3.6 LOBO Loan
The Authority holds a £7m LOBO loan with Danske Bank that has the option to propose an increase in the interest rate at set dates, while the Authority has the option to either accept the new rate or to repay the loan at no additional cost. The treasury adviser stated there is a low probability that the lender will propose an increased rate in the foreseeable future. Officers will continue to monitor and discuss with Danske Bank going forward

4. Investment strategy

4.1 As mentioned above the Authority drew down £50m PWLB debt, the impact of this combined with capital slippage of £115m meant that cash balances increased by £15.9m, ending the financial year at £137m as shown in Table 5 below. The carry cost of holding that part of the £50m PWLB debt (not required by the the capital programme in 2022/23) and re-invested diminished as short term deposit rates approached the fixed rates on that debt.

4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2021/22 so they could be used to fund the capital programme whilst maintaining a liquidity buffer of between £30m-£50m as a contingency against any future credit crisis. The Authority has benefited from this strategy as it has been able to take advantage of the increase in short term interest rates. Also during the period the debt managment office (DMO) was utilised for short term investment as thier rates became more competive.

Table 5: Treasury investment activity 2021/22

Investments	Balance at 31/03/21 £m	Movement £m	Balance at 31/03/22 £m	Interest Rate * %
Bank & Building Society (fixed unsecured)	15.000	35.000	50.000	0.94
Bank & Building Society (Call & Notice Accounts)	20.000	0.000	20.000	0.55
Local Authorities	75.000	(60.000)	15.000	0.35
Debt Management Office (DMO)	0.000	52.000	52.000	0.50
Total investments	**110.000**	**27.000**	**137.000**	**0.65**

* interest rates as at the 31st March 2022

4.3 **Appendix A** shows the breakdown of counterparties and investments for the Authority, showing the percentage each investment represents as a part of the total amount invested.

5. Budgeted Income and Return

5.1 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 6 below:

Table 6: Treasury investment performance 2020-21

	Benchmark Return 3 month LIBOR (Average Quarterly Rate), replaced by SONIA look back and compounded from 1st Jan' 2022 %	Budgeted Rate of Return %	Budgeted Interest (Full Year) £m	Weighted Actual Rate of Return %	Interest to end of Quarter £m
Quarter 1	0.05	0.32	0.103	0.28	0.095
Quarter 2	0.05	0.32	0.103	0.23	0.076
Quarter 3	0.08	0.32	0.103	0.19	0.061
Quarter 4	0.38	0.32	0.103	0.37	0.139

5.2 From the 1st January 2022 LIBOR ceased to be supported and published by the banks being replaced by SONIA, see explanation in appendix C. Accordingly treasury will use SONIA going forward to benchmark activities and performance.

6. Regulatory Changes

6.1 CIPFA released the new editions of the Treasury Management ("TM") Code and Prudential Code on the 20/12/21. Planned Member training will cover this new edition. The key changes are:

<u>Prudential Code</u>

- The 2021 Code took immediate effect, except authorities can defer introducing revised reporting requirements until 2023/24 financial year (these include changes in capital strategy, prudential indicators and investment reporting). The **<u>authority must not borrow to invest primarily for financial return, applied with immediate effect.</u>** This authority chose to defer implementing revised reporting arrangements until 2023/24 in line with most other authorities to give time to implement the new arrangements.
- Objectives – capital plans and investment plans are affordable and proportionate; all borrowing/other long-term liabilities are within prudent and sustainable levels; risks associated with investment are proportionate to financial capacity and treasury management decisions are in accordance with good professional practice.

- Further strengthening on matters to be taken into account when setting and revising prudential indicators particularly decision making on capital investment, determining a capital strategy, prudence and affordability.
- ESG in Capital Strategy – broadened to make clear the strategy should address environmental sustainability in a manner which is consistent with the Authority's own corporate policies on the issue.
- Commercial Property – makes clear historical asset base not impacted and that plans to divest should be part of an annual review.
- Definition of Investment – separate categories for Treasury Investment, Service Investment and Commercial Investment.
- Any decision to maintain long term Treasury Investment is left to each Authority/S151 to justify (assumption being that these are not borrowed for) and any longer term Treasury Investment to be linked to Business Model (e.g. a link to cash flow management or treasury risk management).
- CIPFA's key concern is borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding not being prudent to make any investment or spending decision that will increase the CFR, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- Capital Financing Requirement – Gross Debt and the capital financing requirement still a key indicator – small changes to calculation of CFR to include Heritage Assets.

<u>Treasury Management Code</u>

- Unlike the Prudential Code, there is no reference to effective date but this Authority will introduce reporting arrangements in 2023/24. The TM Code, require authorities to have regard to guidance under provisions of Local Government Act 2003.
- Treasury Management Practice (TMP) 1 Credit and Counterparty Risk Management – provides further clarification on ESG.
- Knowledge and Skills – TMP10 strengthened this requirement.
- TM Reporting and TM Code makes clear that reporting should set out Service and Commercial investment risks especially where this is supported by borrowing/leverage with proportionate level of any borrowing a decision for Authority/S151 – also emphasis placed "Local authorities must not borrow to invest for the primary purpose of financial return".
- TM Code reporting frequency – a minimum annual reports before, mid-year and after the year-end.
- Liability Benchmark – CIPFA introduced the liability benchmark as a new Prudential Indicator, and state that *"the liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows."*

6.2 New PWLB Guidance: This blocks access to all PWLB borrowing in any year in which capital programme includes expenditure on an asset purely to obtain yield. This authority has no expenditure that falls into this category.

7. Compliance with Treasury and Prudential Limits

7.1 During the 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 B of this report.

7.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

Risk is inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

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.

The report has no direct equalities implications.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have ‘due regard’ to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Health and Wellbeing implications and risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council’s workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Appendix A

List of the Authority's deposit takers at 31/3/22

Counterparty Name	Amount	Percentage of total amount
DMADF (Debt Management Account Deposit Facility)	£52,000,000	37.96%
National Westminster Bank plc	£25,000,000	18.25%
Santander UK plc	£20,000,000	14.60%
Goldman Sachs International	£20,000,000	14.60%
Mid Suffolk District Council	£5,000,000	3.65%
London Borough of Southwark	£5,000,000	3.65%
Fife Council	£5,000,000	3.65%
Australia and New Zealand Banking Group Limited	£5,000,000	3.65%
Total	**£137,000,000**	

Appendix B

Compliance Report

All treasury management activities undertaken during the financial 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

	2021/22 Limit %	2021/22 Actual %	2021/22 Limit %	2022/23 Limit %
Upper limit on fixed interest rate exposure	100	100	100	100
Upper limit on variable interest rate exposure	25	0	30	30

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.

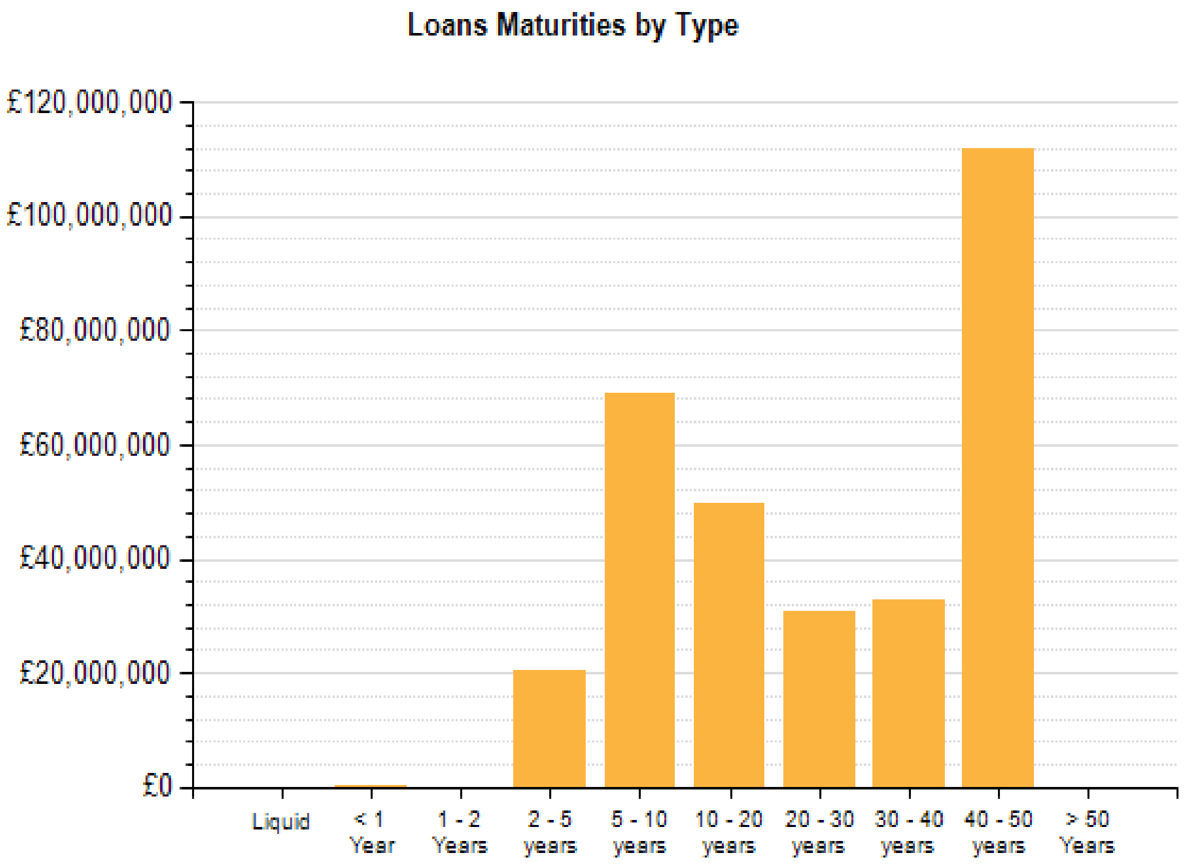
1.1.2 Having larger amounts of fixed interest rate borrowing gives the Authority greater stability with regards to its interest payments and reduces the risk of higher interest costs should interest rates rise. Traditionally local authorities have taken advantage of fixing interest rates long term to 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	0.2
12 months and within 24 months	60	0	0
24 months and within 5 years	80	0	6.5
5 years and within 10 years	100	0	21.9
10 years and above	100	0	71.4



Tenor Bucket	Fixed	rate
Liquid	£0	
< 1 Year	£100,000	0.17%
1 - 2 Years		
2 - 5 years	£20,553,506	3.09%
5 - 10 years	£69,036,518	3.26%
10 - 20 years	£49,574,400	3.34%
20 - 30 years	£30,753,158	3.42%
30 - 40 years	£32,959,855	5.03%
40 - 50 years	£112,000,000	1.66%
> 50 Years		
Total	£314,977,437	2.89%

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. The average maturing life of the long term debt is 26 years.

1.3 Principal Sums Invested for Periods Longer than 364 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 2021/22 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 3: Investments for periods longer than 364 days

	2021/22 Limit £m	2021/22 Actual £m	2022/23 Limit £m
Limit on principal invested beyond year end	120	-	120

1.4 Security Treasury Indicator

1.4.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 5: Security Treasury Indicator

	31.03.22 Actual	2021/22 Target
Portfolio average credit rating	A+	A+

1.5 Gross Debt and the Capital Financing Requirement (CFR)

1.5.1 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. The estimates below are based on those set out in the approved TMSS 2022/23 – the capital programme is currently under review and are likely to change.

Table 6: Gross debt and the CFR at 31st March 2022

	31.03.22 Actual £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m
Long-term External Debt	**315**	**315**	**704**	**881**
General Fund	124	155	168	176
Housing HRA	280	349	468	546
Regeneration	65	82	168	259
TOTAL CFR	**469**	**584**	**804**	**981**
Internal Borrowing	154	293	100	100

1.5.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

1.6 Operational Boundary for External Debt

1.6.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. These limits may be reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 7: Operational Boundary

Operational Boundary	2021/22 £m	31.03.22 Actual	2022/23 £m	2023/24 £m
Borrowing	465	315	865	1,130
Other long-term liabilities	10	0	10	10
Total	**588**	**315**	**875**	**1,140**

1.7 Authorised Limit for External Debt

1.7.1 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 borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 8: Authorised limit for external debt

Authorised Limit	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	804	1,053	1,153
Other long-term liabilities	10	10	10
Total Debt	**814**	**1,063**	**1,163**
Long Term Debt	315	315	315
Headroom available (amount)	**499**	**748**	**848**

Glossary of Terms **Appendix C**

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.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

Monetary Policy Committee (**MPC**) is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). CPI inflation measure excludes housing costs.

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.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.