AUDIT COMMITTEE – 26 FEBRUARY 2016

Title of paper:	**TREASURY MANAGEMENT 2016/17 STRATEGY**	
Director(s)/ Corporate Director(s):	Glen O'Connell, Corporate Director for Resilience	**Wards affected: All**
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Recommendation(s):		
1	Audit Committee are asked to consider and comment on the proposed Treasury Management Strategy for 2016/17, attached as Appendix 1, and, in particular: **a.** the strategy for debt repayment (Minimum Revenue Provision) in 2016/17 **(Appendix 4)**; **b.** the Investment Strategy for 2016/17 (within **Appendix 1)**; **c.** the prudential indicators and limits for 2015/16 to 2018/19 **(Appendix 3)**; **d.** adopt the current Treasury Management Policy Statement **(Appendix 5)**.	

1 REASONS FOR RECOMMENDATIONS

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code are both adopted by the Council. There is a requirement for authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function.

In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices, and to deliver this in advance of the associated annual strategies being formally approved by Council in March. This provides an opportunity for detailed scrutiny and analysis of the Treasury Management Strategy by those charged with governance.

The approval of the proposed Treasury Management Strategy for 2016/17 is to be considered at the meeting of City Council on 7 March 2016.

2 BACKGROUND

2.1 Treasury management is the management of an organisation's borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.

The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice.

The City Council retains external advisors to provide additional input on treasury management matters. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy, creditworthiness, credit ratings and other counterparty criteria and technical assistance on other related matters, as required.

2.2 In 2015/16 officers undertook to review the Council's existing policy for Debt Repayment otherwise known as Minimum Revenue Provision (MRP). As part of the proposed Treasury Management Strategy for 2016/17 there is a revised MRP policy.

Since 1 April 2007, MRP requirements have been relaxed significantly and the set aside is no longer a prescribed amount. There is freedom for authorities to consider an annual profiling of MRP which best fits the prudent management of their own financial circumstances, providing they meet the basic test of "prudence" which is to repay debt over the life of the benefit or the period implied by the associated grant.

3 PROPOSED TREASURY MANAGEMENT STRATEGY 2016/17 (APPENDIX 1)

3.1 This document sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place in the forthcoming year. Within this context, the objectives of the strategy are:

- To achieve the lowest net interest rate costs on the City Council's external debt, whilst recognising the risk management implications
- To protect the Medium Term Financial Strategy (MTFS) from fluctuations in interest rates and to prevent the need for excessive borrowing in future years, when rates may be unfavourable
- To maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments.

The main elements of the proposed strategy for 2016/17 are:

- Borrowing strategy (**Appendix 1, page 4**)
- Debt rescheduling (**Appendix 1, page 6**)
- Debt repayment (Minimum Revenue Provision statement) (**Appendix 4**)
- Housing Revenue Account strategy (**Appendix 1**)
- Investment strategy (**Appendix 1, page 6**)
- Prudential indicators (**Appendix 3**)
- Risk Management Action Plan (**Appendix 6**)

3.2 Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.

It is proposed that the methodology for calculating MRP on capital expenditure financed from borrowing prior to April 2007 is changed from the 'Regulatory Method' to a fixed, straight line method (equal instalments) over a period of up to 50 years commencing in 2016/17. Whilst it is acknowledged that this method is not specifically recommended in the Guidance for pre April 2007 debt, it is considered prudent by the Section 151 Officer.

The proposal to change the MRP policy was included in the public consultation on the council's budget proposals in January 2016 and no significant issues were raised to suggest there was not support for this proposal.

4 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

4.1 PWLB records, economic and interest rate forecasts and working papers.

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

5.1 Department for Communities and Local Government – Capital Finance Guidance on Minimum Revenue Provision

Appendix 1

NOTTINGHAM CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2016/17

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Introduction

In March 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

The Council 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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 4.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was 2.1% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates. China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. Financial markets have reacted extremely negatively on concerns that the Chinese slowdown will present a significant drag on global growth. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators suggested recent global turbulence has not knocked the American recovery off course, although activity has weakened a little. The Federal Reserve raised policy rates at its meeting in December as expected, but accompanying statements suggested that the tightening cycle will be gradual and very much data dependent. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation and undertook further monetary easing late in the year.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.
Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling at or below 2% several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 1.8% level by around 0.3% a year. The uncertainties surrounding both the timing of UK and US interest rate rises, and the fallout from slower Chinese growth are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by the Arlingclose is attached at Appendix 2.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.80%, and that new long-term loans will be borrowed at an average rate of 3.50%.

Local Context

The Council currently has £698.6m of borrowing and £110.0m of investments. This is set out in further detail at Appendix 9. Forecast changes in these sums and the estimated future borrowing requirement are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
General Fund CFR	679.4	938.2	1036.8	1087.5	1051.1
HRA CFR	281.3	280.8	284.2	284.8	292.0
Total CFR	**960.7**	**1219.0**	**1321.0**	**1372.3**	**1343.1**
Less: Other debt liabilities *	-103.5	-236.3	-226.0	-216.2	-208.7
Borrowing CFR	**857.2**	**982.7**	**1095.0**	**1156.1**	**1134.4**
Less: External borrowing **	688.9	673.8	658.3	642.4	608.0
Internal borrowing	**168.3**	**308.9**	**436.7**	**513.7**	**526.4**
Less: Usable reserves	-250.9	-251.4	-212.5	-204.2	-201.6
Less: Working capital	-133.5	-133.5	-133.5	-133.5	-133.5
Investments or (New borrowing)	**216.1**	**76.0**	**-90.7**	**-176.0**	**-191.3**

* finance leases and PFI liabilities that form part of the Council's debt
** shows only loans to which the Council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £30m.
The Council has an increasing CFR due to the capital programme, and a reducing amount of investments and will therefore be required to borrow up to £191.3m over the forecast period.

The 2014/15 investments include £100m raised from the Public Works Loan Board (PWLB) in 2012/13 to finance a required capital contribution for the Nottingham Express Transit (NET) Phase 2 scheme. This borrowing was raised in advance of need, to take advantage of low interest rates and the cash was expended in August 2015.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

Borrowing Strategy

The Council currently holds £698.6m of loans (excluding £238.9m PFI debt), an increase of £9.7m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £90.7m in 2016/17. The Council may also commit to borrow additional sums at fixed rates to pre-fund future years' requirements, to reduce its level of internal borrowing or for additional capital schemes that are not yet in the capital program approval providing this does not exceed the authorised limit for borrowing of £1,081 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Borrowing decisions are also influenced not only by the absolute level of borrowing rates but also the relationship between short and long-term interest rates in order to achieve best value for money
for the Council.

There are short term cost benefits in using internal resources or to borrow short-term loans for some of the council's overall borrowing requirement.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term/internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine the amount that the Council borrows at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Nottinghamshire County Council Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as the European Investment Bank (EIB), local authority loans and bank loans, that may be available at more favourable rates. The Council may also look to do a formal funding selection exercise via Arlingclose that will seek proposals from a wide range of banks and organisations that are interested in lending to local authorities.

European Investment Bank (EIB): The EIB is the world's largest multilateral development bank. The Bank is a not for profit institution and has a relatively low cost of funding which now represents an attractive funding source for authorities with a sufficiently large capital programme. The product range allows a more sophisticated approach to risk management incorporating forward starting loans, sculpted repayment profiles and a mix of fixed and floating rate debt can be utilised to complement the existing debt portfolio.

LGA Bond Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.

LOBOs: The Council holds £49m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £34m of these LOBOS have options during 2016/17, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and Variable Rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

Debt Rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Forward Starting Loans: In order to minimise the risk of the uncertainty of future interest rates, we will consider the use of 'Forward Starting loans' to fix the rate of interest for a specific loan where the cash will be taken at a set future date. These will be considered where it clearly demonstrates a reduction in the overall financial risk the council is exposed to commensurate to the financial impact of the deal.

Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £91m and £258m, but investment balances are expected to continue to reduce towards a minimum balance of £30m in the forthcoming year as surplus cash will continue to be used to meet borrowing requirements.

Objectives: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to avoid credit risk by further reducing the balances invested and then to diversify into more secure asset classes during 2016/17. Around 60% of the Council's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This further diversification will therefore represent a continuation of the new strategy adopted in 2015/16.

Approved Counterparties: The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£10m 5 years	£15m 20 years	£15m 50 years	£10m 20 years
AA+	£10m 5 years	£15m 10 years	£15m 25 years	£10m 10 years
AA	£10m 4 years	£15m 5 years	£15m 15 years	£10m 10 years
AA-	£10m 3 years	£15m 4 years	£15m 10 years	£10m 10 years
A+	£10m 2 years	£15m 3 years	£15m 5 years	£10m 5 years
A	£10m 13 months	£15m 2 years	£15m 5 years	£10m 5 years
A-	£10m 6 months	£15m 13 months	£15m 5 years	£10m 5 years
None	n/a	n/a	£15m 25 years	n/a
Pooled funds	£10m per fund			

This table must be read in conjunction with the notes below:-

Lloyds Bank: The Council's own bank, will be subject to the limits in table 2 for investment balances, but also accommodate necessary short-term cash management balances for periods of up to 4 days with no maximum sum.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus corporate bonds, commercial paper, equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

<u>Table 3: Non-Specified Investment Limits</u>

	Cash limit
Total long-term investments	£50m
Total investments without credit ratings or rated below A-	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£50m

Investment Limits: The Council's revenue reserves available to cover investment losses are forecast to be c.£161 million on 31st March 2016. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£75m per broker
Foreign countries	£20m per country
Registered Providers	£30m in total
Unsecured investments with Building Societies	£30m in total
Money Market Funds	£75m in total

Other Items
There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Liquidity Management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

Policy on Use of Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Policy on Apportioning Interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the average 3 month UK Government Treasury Bill interest rate to reflect a credit risk free return.

Investment Training: The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The current contract is due to expire in March 2017 and so during 2016/17 the council will seek to go through a re-tender exercise for future services.

Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. Consideration will be given to the use of forward starting loans as an alternative where appropriate. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £1,081 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Management of Risk: Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. Appendix 6 details the specific risks identified in respect of treasury management within the Council and the adopted Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel.

Arlingclose Economic & Interest Rate Forecast December 2015

Underlying assumptions: Underlying assumptions:

- The global economy is facing a period of slower growth, as China reorients slowly towards domestic demand. Lower demand for raw materials will depress growth in mainly developing countries where extraction is the primary industry and countries particularly reliant on exports will also face more challenging conditions.
- Countries with stronger domestic demand, such as the UK and US, will be able to weather a temporary global slowdown, helped by lower commodity prices. However, persistently slower growth will have economic repercussions for these countries.
- Additional US monetary policy tightening will be gradual and not pre-planned. The US economy will absorb the rise in interest rates without choking off growth.
- UK economic growth will slow further but remain within the long term trend range. Economic growth softened in Q3 2015 but remained reasonably robust at 2.3% year-on-year.
- Inflation is currently very low and will likely remain so over the next 12 months, on the back of low commodity prices and expectations that UK monetary policy will be tightened (strengthening sterling). The CPI rate will to rise towards the end of 2016.
- Domestic demand is key for UK growth. Household spending has been and will remain the key driver of GDP growth through 2016. Consumption will continue to be supported by real wage and disposable income growth.
- On the back of strong consumption, business investment has strengthened, which should drive some productivity growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Annual average earnings growth was 2.4% (including bonuses) in the three months to October. With low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term and may alleviate the wage pressure on companies. The development of wage growth is one of the factors being closely monitored by the MPC.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressures.

Forecast:

- We have maintained our projection for the first rise in Bank Rate in Q3 2016. Risks remain weighted to the downside. We project a slow rise in Bank Rate. The appropriate level for Bank Rate will be lower than the previous norm and will be between 2 and 3%.
- We project medium term gilt yields on a shallow upward path in the medium term, with interest rate and inflation expectations remaining subdued.
- The uncertainties surrounding UK and US monetary policy, and global growth weakness, are likely to continue to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Appendix 3

PRUDENTIAL INDICATORS 2014/15 – 2018/19					
	2014/15 Act £m	**2015/16 Est £m**	**2016/17 Est £m**	**2017/18 Est £m**	**2018/19 Est £m**
1. PRUDENCE INDICATORS					
i) Capital Expenditure					
General Fund	123.5	249.9	194.7	134.7	37.0
HRA	60.0	54.6	74.2	50.2	40.2
	183.5	**304.5**	**268.9**	**184.9**	**77.2**
ii) CFR at 31 March					
General Fund	576.2	701.9	810.9	871.3	842.4
HRA	281.3	280.8	284.2	284.8	292.0
PFI-related debt	103.2	236.3	226.0	216.2	208.7
	960.7	**1,219.0**	**1,321.1**	**1,372.3**	**1343.1**
iii) External Debt at 31 March					
Borrowing	688.0	680.7	755.2	819.3	815.0
Other (PFI debt)	103.2	236.3	226.0	216.2	208.7
Gross debt	**791.2**	**917.0**	**981.2**	**1035.5**	**1,023.7**
2. AFFORDABILITY INDICATORS					
i) Ratio of financing costs to net revenue stream					
General Fund		14.62%	14.61%	18.91%	19.03%
HRA		11.90%	12.02%	12.23%	12.71%
ii) Impact of capital investment decisions			**£s**	**£s**	**£s**
Council Tax Band D (per annum)			16.38	47.65	40.01
HRA rent (per week)			0.05	0.23	0.19
		£m	**£m**	**£m**	**£m**
iii) Authorised limit for external debt		1,091.6	1,081.2	1,135.5	1,123.7
iv) Operational Boundary for ext. debt		1,041.6	1,041.2	1,095.5	1,083.7
v) HRA limit on indebtedness					
HRA CFR		280.8	284.2	284.8	292.0
HRA Debt Cap (CLG prescribed)		319.8	319.8	319.8	319.8
Difference - headroom		**39.0**	**35.5**	**35.0**	**27.8**
3. TREASURY MANAGEMENT INDICATORS					
i) Upper limit on variable interest rate exposure	-97.1	250.0	250.0	250.0	250.0
ii) Upper limit on fixed interest rate exposure	571.2	800.0	800.0	800.0	800.0
iii) Fixed Debt maturity structure					
- under 12 months	8%	0-25%	0-25%	0-25%	0-25%
- 12 months to 2 years	3%	0-25%	0-25%	0-25%	0-25%
- 2 to 5 years	10%	0-25%	0-25%	0-25%	0-25%
- 5 to 10 years	19%	0-50%	0-50%	0-50%	0-50%
- 10 to 25 years	35%	0-50%	0-50%	0-50%	0-50%
- 25 to 40 years	22%	0-25%	0-25%	0-25%	0-25%
- 40 years and above	3%	0-75%	0-75%	0-75%	0-75%
iv) Sums invested for >364 days - in-house limit	£10.0m	£50m	£50m	£20m	£20m
v) Adoption of the *CIPFA Code of Practice for Treasury Management*	YES				
vi) Credit risk	Provided in Appendix 1,				

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) **<u>Prudence Indicators</u>**

i) *'Estimate of total capital expenditure'* – a "reasonable" estimate of total capital expenditure to be incurred in the next 3 financial years, split between the General Fund and the HRA.

- This estimate takes into account the current approved asset management and capital investment strategies.

ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required, together with estimates for the next three financial years.

- This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
- The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.

iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet, with estimates for the next three financial years.

2) **<u>Affordability Indicators</u>**

i) '*Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.

- These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of existing and proposed capital expenditure.

ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing and not financed from existing budget provision, on both the level of council tax and weekly housing rents.

- This is a key indicator, which provides a direct link between the capital programme and revenue budget and enables the revenue impact of additional unsupported capital investment to be understood.

iii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year. An estimate for the next three financial years is required.

- This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a ‘worst case’ scenario.

iv) *‘Operating boundary for external debt’* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

v) *‘HRA limit on indebtedness’* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a ‘cap’ on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘Upper limit on variable interest rate exposure’* - is set to control the Authority’s exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed for the next three financial years are required.

- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

ii) *‘Upper limit on fixed interest rate exposure’* - is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed interest rate exposures, expressed as the amount of net principal borrowed for the next three financial years are required.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates.

iii) *‘Upper and lower limits with respect to the maturity structure of the Council’s borrowing’* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.

- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.

iv) *‘Total sums invested for periods of greater than 364 days* – a limit on investments for periods longer than 1 year. A three-year estimate is required.

- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

v) *The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services’.* This is not a numerical indicator, but a statement of good practice.

- The Council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have subsequently been incorporated within the Council’s strategy and procedures.

vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy.

Appendix 4

Annual Minimum Revenue Provision Statement 2016/17

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date, MRP policy will be to charge 2% of the balance at 31 March 2016 on a straight line basis so the whole debt is repaid after 50 years. Starting in 2016/17 this represents a prudent adaptation to Option 1 in the guidance.

- For unsupported capital expenditure incurred after 2007/08, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. *(Option 3 in the guidance)*

- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where loans are made to other bodies for their capital expenditure, MRP will be charged in line with the principal repayment profile in the 3rd party agreement.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

- Voluntary MRP may be made at the discretion of the Director of Finance.

- Capital receipts maybe voluntarily set-aside to clear debt and replace with future prudential borrowing to temporarily reduce the MRP charge. This use of capital receipts will be at the discretion of the Director of Finance.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

Appendix 5

NOTTINGHAM CITY COUNCIL TREASURY MANAGEMENT POLICY STATEMENT

The following treasury management policy statement was formally adopted by the City Council on 5 March 2012*.*

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive Board and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

"The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 6

Risk Management Action Plan (RMAP)

Likelihood	
1	Remote
2	Unlikely
3	Possible
4	Likely
5	Almost Certain

Likelihood (L)					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5
	Impact (I)				

Impact	
1	Negligible
2	Minor
3	Moderate
4	Major
5	Catastrophic

Low Seriousness	Medium Seriousness	High Seriousness

Summary Business Risk: SRR17 – Failure to protect the Council's investments					
Owned by: DCEX/CD - Resources	Completed by: DCEX/CD – Resources and Treasury Management Panel		Completed: November 2015	Next Review: February 2016	
Prevailing Summary risk Threat Level (LxI)		4.86 (average) (2.00 x 2.43)	Target summary Risk Threat Level		3.47 (average) (1.43 x 2.43)
Summary risk mitigation effectiveness (Effective, yet to secure improvement, may not be enough)			Effective		

Risks under risk management:

Risk Ref:	Description	Current Risk Rating Score (LxI)	Target Risk Rating Score (LxI)
1	Inappropriate investment strategy (TMP 1.1, 1.2, 1.3, 1.8, 3, 4 & 11)	1 x 4 = 4	1 x 3 = 3
2	Inappropriate borrowing strategy (TMP 1.2, 1.3, 1.5 & 1.8)	3 x 1 = 3	3 x 1 = 3
3	Revenue implications of capital program not accurately reflected in the MTFP (TMP 7)	3 x 3 = 9	1 x 3 = 3
4	MRP Policy is Inappropriate (TMP 7)	2 x 2 = 4	1 x 3 = 3
5	Poor cash management (TMP 1.2, 1. 8)	1 x 3 = 3	1 x 3 = 3
6	Colleague fraud (TMP 1.7 & 5)	2 x 2 = 4	1 x 2 = 2
7	Failure to comply with CIPFA Code of Practice and/or respond to changes in relevant legislation (TMP 1.6)	2 x 2 = 4	2 x 2 = 4

Current Management Action / Controls Acting on Risk? Delete as applicable: Some								
Risk Ref.	**Current Management/actions in place**	**Adequacy of action/control to mitigate risk**	**Additional management action/ controls**	**Responsibility for additional action**		**Critical success factors of additional actions**	**Key Dates**	
				CD	**D/ HoS**		**Additional controls complete**	**Progress review frequency**
1	• Continued use of external advisors – Arlingclose contract renewed from April '13 to March '17 • Use of counterparties list based on range of formal credit ratings and wider market intelligence and advice • Limits set for amounts and time periods with individual institutions • Counterparty limits amended as and when required and future investments suspended if deemed appropriate • TM and investment strategy reviewed and amended as required • Quarterly review of the investment	EFFECTIVE	• Maintain current arrangements	GO	GW	• Monthly check by S151 officer of current investments.	Ongoing	Ongoing
			• Internal audit plan includes 16 scheduled audit days per annum.			• Latest Internal Audit report findings give "High assurance on controls" (March 15)	Ongoing	As received
						• Weekly meetings with portfolio holder	Ongoing	Weekly
						• TM Panel meets regularly to review the overall position.	Ongoing	Quarterly
						• Implementation of amendments	Ongoing	As required

	portfolio carried out at TM Panel meetings. • Monitoring of wider economic environment provided by advisors, with amendments to the existing strategy, as required. • Regular reviews of interest rate forecasts • Up to date knowledge of existing and developing investment products through regular attendance at seminars and workshops • CFO action under delegation (and in consultation with portfolio holder) to respond quickly to emerging issues.					to the investment strategy when appropriate • TM colleagues work with advisors and colleagues to keep abreast of wider economic conditions and respond accordingly.	Ongoing	Quarterly
2	• Identification and monitoring of annual borrowing requirement • Monitoring of PWLB borrowing rates • Use of alternative	EFFECTIVE	• Capital programme review completed • Maintain existing	GO	GW TC	• Sufficient resources identified to cover capital expenditure and cash flows • Continued	Ongoing Ongoing	Quarterly Quarterly

	loan products as appropriate • Regular review of arrangements and possibilities • Review of capital programme, informing new capital strategy. • Retention of strong external advisors • Establishment and maintenance of a liability benchmark, to monitor Minimum Revenue Provision against debt and Capital Financing Requirement • Opportunities for rescheduling identified and implemented		arrangements • Continued strong performance of external advisors			regular review by TM Panel.		
3	• Treasury Costs in MTFP based on latest capital program and balance sheet forecasts • Regular review of capital program • Monitor Interest rate forecasts • Retention of strong external advisors • Support Corporate	ONGOING	• Continued support from external advisors	GO	GW	• Continued regular review by TM Panel	At TM Panel meetings	Quarterly

	Finance Team to develop systems to monitor and control investment strategy income streams required to repay debt							
4	• Benchmark other Local Authorities MRP policies • Attendance of Treasury/Finance workshops on MRP policy reviews • Fully review the current MRP policy in the light of prevailing and forecast circumstances • Incorporate new policy and financial implications into MTFP	ONGOING		GO GO	GW GW	• Continued regular review by TM Panel. • Changes to policy included in TM Strategy Report	At TM Panel meetings Annual TM strategy	At least Quarterly Annual

5	• Use of cash forecasting models, with regular monitoring and updates undertaken • Track record is sound • Continuous adaptation of model in the light of prevailing and forecast circumstances • Require to incorporate the cash implications of the funding streams on investment strategy projects	ONGOING	• Maintain existing arrangements	GO	GW	• Continued regular review by TM Panel	TM Panel meetings	Quarterly
6	• System of delegation and approved processes • Separation of duties between treasury management dealing and accounting • Use of professional indemnity insurance • Governance checks in place – e.g.: review by s151 officer and TM Panel in place and satisfactory outcomes to date	EFFECTIVE	• Periodic system tests • Maintain existing arrangements – to be changed if testing identifies any issues • Maintenance of an updated Treasury Management Manual of Procedures and Practices	GO	GW	• Satisfactory outcome of internal audit review • Continuing satisfactory outcome of checks by s151 officer and system tests. • TM Panel review is robust	Internal audit reports Ongoing TM Panel meetings TM Panel meetings	Quarterly Ongoing Ongoing
7	• Formal adoption of	EFFECTIVE	• Existing	GO	GW	• Continued	Ongoing	Ongoing

	Code in place since inception. • Updates are reflected in annual review of TM and Investment Strategies • Review of requirements to take place as early as possible • Training on accounting issues • Regular attendance at treasury management workshops and seminars • Provide councillor training to ensure adequate scrutiny of Treasury activities		arrangements to continue • LAAP bulletin updates to be identified through specific closedown action note			application of current arrangements • Revisions are promptly and accurately reflected • Satisfactory internal audit review outcome • Robust appraisal by TM Panel	Annual TM and investment strategy Audit report TM Panel meetings	Annual Annual At least quarterly

Appendix 7

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the portfolio holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix 8

GLOSSARY OF TREASURY MANAGEMENT TECHNICAL TERMS	
TERM	**DEFINITION**
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate".
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Certainty Rate (PWLB)	A 0.20% discount offered on new loans from PWLB in return for submission of information on future borrowing requirements.
Certificates of Deposit	Tradeable debt instrument issued by financial institution with fixed interest rate and maturity.
CNAV	See Money Market Funds
Credit Default Swaps	A financial instrument for swapping the risk of debt default; the buyer effectively pays an insurance premium against the risk of default.
Credit Rating	A formal opinion issued by a registered rating agency of a counterparty's (or a country's) future ability to meet its financial liabilities; these are opinions only and not guarantees.
Debt maturity	The date when an investment or loan is scheduled to be repaid.
Debt maturity profile	An analysis of the maturity dates of a range of loans/investments.
Diversification	The spreading of investments among different types of assets or between markets in order to reduce risk.
European Investment Bank (EIB)	A non-profit bank created by the European Union principally to make or guarantee loans to EU members for projects contributing to regional development within the Union. Funding is raised through the issuance of bonds, guaranteed by member states.
Funding For Lending Scheme	A Government/Bank of England scheme to provide banks with cheaper funding with the aim of increasing banks' overall net lending activity.
Government Gilts	Bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Int. Financial Accounting Standards (IFRS)	Guidelines and rules set by the International Accounting Standards Board that companies and organisations follow when compiling financial statements.
Minimum Revenue Provision	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
MMFs - CNAV	Constant Net Asset Value - a term used in relation to the value of a unit share in a pooled fund. The value of a share is always £1.
MMFs or Pooled Funds - VNAV	Variable Net Asset Value - a term used in relation to the value of a unit share in a pooled fund. A proportion of the assets may be valued at market value, rather than purchase price, reducing the value of the share on a temporary basis.
Negotiable Instruments	Term used for instruments such as Certificates of Deposits, Covered Bonds, Medium Term Notes and Corporate Bonds, where it is possible to realise the investment on the secondary market before maturity.
Non-Specified Investments	Term used in the CLG guidance. It includes any investment for periods greater than one year or those with bodies that do not have a high credit

	rating, use of which must be justified.
Pooled funds	Funds in which several investors collectively hold units or shares. The assets in the fund are held as part of a pool.
Premiums and Discounts	A penalty or payment arising from the premature repayment of debt. The calculation is dependant on the relative level of interest rates for the existing loan and current market rates.
Private Finance Initiative	A way of funding major capital investments, without immediate recourse to the public purse. Private consortia are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators.
PWLB	Public Works Loans Board. A statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing	The process used by the Bank of England to directly increase the quantity of money in the economy. The Bank buys assets from private sector institutions and credits the seller's bank account. The seller has more money in their bank account, while their bank holds a claim against the Bank of England (known as reserves). The end result is more money out in the wider economy.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
Specified Investments	Term used in the CLG Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Debt issued by international organisations such as the World Bank, the Council of Europe and the European Investment Bank
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Treasury Bills	Government-issued short-term loan instrument
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Appendix 9 – Existing Investment & Debt Portfolio Position

	At 31 December 2015 **Actual Portfolio £m**	**Average Rate %**
External Borrowing:		
PWLB – Fixed Rate	566.470	4.16
PWLB – Variable Rate	54.295	0.66
Local Authorities	27.100	0.42
LOBO Loans	49.000	4.35
Bonds/Stock	0.621	3.00
Other	1.164	0.50
Total External Borrowing	**698.650**	**3.75**
Other Long Term Liabilities:		
PFI	236.662	
Finance Leases	2.204	
Total Gross External Debt	**937.516**	
Investments:		
Short-term investments	100.034	0.58
Long-term investments	10.000	1.40
Pooled Funds	10.000	0.70
Total Investments	**110.034**	**0.72**
Net Debt	**827.428**	