

## AUDIT COMMITTEE - 24 FEBRUARY 2017

Title of paper:		TREASURY MANAGEMENT 2017/18 STRATEGY	
Director(s)/ Corporate Director(s):		Geoff Walker, Director of Strategic Finance	Wards affected: All
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Other colleagues who have provided input:		Members of Treasury Management Panel: Geoff Walker, Director of Strategic Finance Theresa Channell, Head of Corporate Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader	
Recommendation(s):			
1	Audit Committee are asked to consider and comment on the proposed Treasury Management Strategy for 2017/18, attached as <b>Appendix 1</b> , and, in particular: a. the strategy for debt repayment (Minimum Revenue Provision) in 2017/18 ( <b>Appendix 4</b> ); b. the Investment and Borrowing Strategies for 2017/18 (within <b>Appendix 1</b> ); c. the Prudential Indicators and limits for 2015/16 to 2019/20 ( <b>Appendix 3</b> ); d. the current Treasury Management Policy Statement ( <b>Appendix 5</b> ).		

## **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 2017/18 is to be considered at the meeting of City Council on 6 March 2017.

## **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.

### **3 PROPOSED TREASURY MANAGEMENT STRATEGY 2017/18 (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 2017/18 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 9**)

#### **3.2 Summary of the main issues**

3.2.1 The Treasury Management budget for 2017/18 is £46.837m and is based on the financial implications of the various proposed strategies, as detailed in Appendix 1, and has been included within the Medium Term Financial Plan (MTFP).

3.2.2 The Treasury Management Strategy reflects the implications of capital schemes within the approved capital program and a number of schemes in development which will significantly increase this programme to reflect the potential investment in the City Centre. Further detail can be found within the Capital Strategy Report being considered by Executive Board on 21 February 2017.

3.2.3 The Council's level of net external debt is anticipated to be £945.903m including £225.719m of Private Finance Initiative (PFI) liabilities as at 31 March 2017. This is expected to increase to £1,017.2m including £215.8m PFI debt by 31 March 2018. The cost of interest payments on the debt are expected to increase by £0.728m in 17/18.

3.2.4 The 2017/18 strategy continues to be to fund the borrowing requirement from short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The low interest rate funding environment is expected to continue for at least the next couple of years. This strategy does increase the Council's exposure to changes in long term interest rates, however this exposure is considered manageable given that £578m of the

Council's long term loan portfolio is at fixed rates and funded at less than 3.8% with a good spread of maturities.

The treasury management budget assumes the anticipated borrowing requirement will be financed by long term loans, together with an element of short term loans in 2017/18 to take the opportunity afforded by the low interest rates.

The strategy balances the risk that future interest rates will rise, reducing the benefit accrued from this policy. For example the initial costs are up to £0.225m lower per £10m borrowed short term at 0.25% (Bank Rate) vs 25 year PWLB debt at 2.50%; this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost. Should £40m be taken using short term loans it is anticipated that around £0.9m be released and transferred into the Treasury Management Reserve for 'Interest equalisation' subject to the prevailing economic conditions at the time.

This would mean the forecast level of net variable interest rate exposure would be c.£190m including existing debts maturing in 17/18, the remaining 16/17 financing requirements and £24m LOBO loans with options in 17/18, however these are unlikely to be exercised.

This strategy will be kept under regular review and will use the support of our external treasury advisors, the latest economic and interest rate forecasts and funds will be maintained within the Treasury Management Reserve to protect the MTFP from unanticipated interest cost increases. Appendix 2 shows Arlingclose's Economic and Interest Rate Forecast.

#### **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 None.

## NOTTINGHAM CITY COUNCIL

**TREASURY MANAGEMENT STRATEGY 2017/18**

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Executive Board 21 February 2017  
Audit Committee 24 February 2017  
City Council 6 March 2017

## **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:** The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

**Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. 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 continue to fall.

**Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of

England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.30%, short-term loans will be borrowed at an average of 0.40% and that new long-term loans will be borrowed at an average rate of 3.00%.

### **Local Context**

The Council currently has £745.4m of borrowing and £63.9m of investments. This is set out in further detail at Appendix 6. Forecast changes in these sums and the estimated future borrowing requirement are shown in the balance sheet analysis in table 1 below.

**Table 1: Forecast Borrowing Requirement and Balance Sheet Summary**

	<b>31.3.16</b>	<b>31.3.17</b>	<b>31.3.18</b>	<b>31.3.19</b>	<b>31.3.20</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund CFR	915.1	977.3	1039.3	1112.3	1097.5
HRA CFR	280.8	280.3	280	279.3	278.8
<b>Total CFR</b>	<b>1195.9</b>	<b>1257.6</b>	<b>1319.3</b>	<b>1391.6</b>	<b>1376.3</b>
Less: Other debt liabilities *	-236.3	-225.7	-215.8	-208.7	-198.5
<b>Borrowing CFR</b>	<b>959.6</b>	<b>1031.9</b>	<b>1103.5</b>	<b>1182.9</b>	<b>1177.8</b>
Less: External borrowing **	-690.4	-694.1	-677.4	-642.1	-588.3
<b>Internal borrowing</b>	<b>269.2</b>	<b>337.8</b>	<b>426.1</b>	<b>540.8</b>	<b>589.5</b>
Less: Usable reserves	-252.5	-211.9	-201.9	-197.5	-203.8
Less: Working capital	-99.9	-99.9	-99.9	-99.9	-99.9
<b>Investments or (New borrowing)</b>	<b>83.2</b>	<b>-26.0</b>	<b>-124.3</b>	<b>-243.4</b>	<b>-285.8</b>

\* 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 around £30m.

The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £286m over the forecast period..

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 2017/18.

### **Borrowing Strategy**

The Council currently holds £745.4m of loans (excluding £225.7m PFI debt), an increase of £55.0m 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 £124.3m by the end of 2017/18 at which point external debt is forecast to be around £801.7m (£1,017.5 including PFI debt).

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 approved capital program providing this does not exceed the authorised limit for borrowing of £1,147 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.

The Council will look to fund the borrowing requirement from short term loans at low interest rates whilst still allowing flexibility to take advantage of longer term funding opportunities. Any borrowing will be subject to the Council's limits on the net exposure to fixed and variable interest rates shown in the Prudential Indicators shown in Appendix 3.

When borrowing, the Council usually pays a margin above prevailing central government funding costs (gilt yields). For PWLB loans, this margin is fixed at 0.80% for the majority of funding. However, when funding via the money markets, via short-term loans with a maturity date of than less than 1 year, little or no margin is applied by local authorities that are depositing surplus cash. In addition, short-term rates are based on prevailing Bank of England "Bank Rate", currently 0.25% while longer term loans will reflect longer-term trends and other market factors. Consequently, it is currently significantly cheaper to borrow short-term debt from other local authorities than borrow PWLB loans.

The saving against 25 year PWLB debt is currently (2.50% - 0.25%) = £225,000 per annum for every £10m borrowed; the impact of each 0.25% rise in Bank Rate is an £25,000 extra cost per annum. While there is the risk of not finding sufficient short term funding, local authorities currently have £37bn available to invest and the PWLB also provides a liquidity back stop.

In this way the Council will be able to reduce net borrowing costs and reduce overall treasury risk. The benefits of short-term 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 modestly. Our treasury advisors will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017/18 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 2017/18, 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 further short-term loans to cover unplanned 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.

**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.



**Municipal 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 will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; 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 £34m 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. £24m of these LOBOs have options during 2017/18, 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 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 £41m and £110m, but investment balances are expected to be maintained at a balance of around £30m in the forthcoming year.

**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.

**Negative Interest Rates:** If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

**Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims primarily to avoid credit risk by holding a minimum level of investments for cash flow liquidity purposes only. The majority of the Council's surplus cash is currently invested in highly liquid short-term unsecured bank deposits and money market funds.

Should investment balances increase for a sustained period the Council will aim to diversify further into secured asset classes.

**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
UK Govt	n/a	n/a	£ Unlimited 50 years
AAA	£10m 5 years	£15m 20 years	£15m 50 years
AA+	£10m 5 years	£15m 10 years	£15m 25 years
AA	£10m 4 years	£15m 5 years	£15m 15 years
AA-	£10m 3 years	£15m 4 years	£15m 10 years
A+	£10m 2 years	£15m 3 years	£15m 5 years
A	£10m 13 months	£15m 2 years	£15m 5 years
A-	£10m 6 months	£15m 13 months	£15m 5 years
None	n/a	n/a	£15m 25 years
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 limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**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.

**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.

**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. The limit for non-specified investments is shown in table 3 below.

Table 3: Non-Specified Investment Limit

	Cash limit
Total non-specified investments	£30m

**Investment Limits:** The Council’s revenue reserves available to cover investment losses are forecast to be c.£160 million on 31st March 2017. 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

	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£50m per broker
Foreign countries	£10m per country
Money Market Funds	£50m 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.

**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 periodically attend training courses, seminars and conferences provided by our treasury advisors 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 the council is to go through a re-tender exercise for future services commencing from April 2017.

**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. 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 £1,147 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. Details of the specific risks identified in respect of treasury management within the Council are adopted to form a Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel and is reported to Audit Committee for scrutiny as part of the Treasury Management Strategy Report..

### **Arlingclose Economic & Interest Rate Forecast December 2016**

#### **Underlying assumptions: Underlying assumptions:**

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely..

#### **Forecast:**

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.



- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month LIBID rate													
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
1-yr LIBID rate													
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
5-yr gilt yield													
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.50	0.40	0.35	0.35	0.35	0.40	0.40	0.40	0.45	0.50	0.55	0.60	0.65
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10-yr gilt yield													
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.15	0.95	0.85	0.85	0.85	0.85	0.85	0.90	0.95	1.00	1.05	1.10	1.15
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
20-yr gilt yield													
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.70	1.50	1.40	1.40	1.40	1.40	1.40	1.45	1.50	1.55	1.60	1.65	1.70
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
50-yr gilt yield													
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.60	1.40	1.30	1.30	1.30	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.60
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60

### Appendix 3

PRUDENTIAL INDICATORS 2015/16 – 2019/20					
	2015/16 Act £m	2016/17 Est £m	2017/18 Est £m	2018/19 Est £m	2019/20 Est £m
<b>1. PRUDENCE INDICATORS</b>					
<b>i) Capital Expenditure</b>					
General Fund	201.2	178.5	167.7	160.3	50.8
HRA	51.0	57.9	63.3	43.5	34.6
	<b>252.2</b>	<b>236.4</b>	<b>231.0</b>	<b>203.8</b>	<b>85.4</b>
<b>ii) CFR at 31 March</b>					
General Fund	678.8	751.6	823.5	903.7	899.0
HRA	280.8	280.3	279.8	279.3	278.8
PFI-related debt	236.3	225.7	215.8	208.7	198.5
	<b>1,195.9</b>	<b>1,257.6</b>	<b>1,319.1</b>	<b>1,391.6</b>	<b>1,376.3</b>
<b>iii) External Debt at 31 March</b>					
Borrowing	690.4	750.2	831.5	915.1	904.8
Other (PFI debt)	236.3	225.7	215.8	208.7	198.5
<b>Gross Debt</b>	<b>926.7</b>	<b>975.9</b>	<b>1,047.2</b>	<b>1,123.8</b>	<b>1,103.3</b>
Less Investments	-82.7	-30.0	-30.0	-30.0	-30.0
<b>Net Debt</b>	<b>844.0</b>	<b>945.9</b>	<b>1,017.2</b>	<b>1,093.8</b>	<b>1,073.3</b>
<b>2. AFFORDABILITY INDICATORS</b>					
<b>i) Ratio of financing costs to net revenue stream</b>					
General Fund		14.52%	15.44%	17.05%	18.48%
HRA		12.06%	12.29%	12.92%	13.27%
<b>ii) Impact of capital investment decisions</b>		£	£	£	£
Council Tax Band D (per annum)		36.18	48.11	12.74	25.66
HRA rent (per week)		0.00	0.00	0.10	0.40
<b>iii) Authorised limit for external debt</b>		£m	£m	£m	£m
<b>iv) Operational Boundary for ext. debt</b>		1,081.2	1,147.2	1,223.8	1,203.3
		1,041.2	1,107.2	1,183.8	1,163.3
<b>v) HRA limit on indebtedness</b>					
HRA CFR		280.3	279.8	279.3	278.8
HRA Debt Cap (CLG prescribed)		319.8	319.8	319.8	319.8
Difference - headroom		<b>39.5</b>	<b>40.0</b>	<b>40.5</b>	<b>40.0</b>
<b>3. TREASURY MANAGEMENT INDICATORS</b>					
<b>i) Upper limit on NET variable interest rate exposure</b>	22.0	250.0	300.0	300.0	300.0
<b>ii) Upper limit on NET fixed interest rate exposure</b>	585.6	800.0	900.0	900.0	900.0
<b>iii) Fixed Debt maturity structure</b>					
- 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	12%	0-25%	0-25%	0-25%	0-25%
- 5 to 10 years	18%	0-25%	0-25%	0-25%	0-25%
- 10 to 25 years	32%	0-50%	0-50%	0-50%	0-50%
- 25 to 40 years	23%	0-50%	0-50%	0-50%	0-50%
- 40 years and above	6%	0-25%	0-25%	0-25%	0-25%
<b>iv) Sums invested for &gt;364 days</b>					
- in-house limit	£0m	£50m	£20m	£20m	£20m
<b>v) Adoption of the CIPFA Code of Practice for Treasury Management</b>	YES				
<b>vi) Credit risk</b>	Provided in Appendix 1,				

## **NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS**

### **1) Prudence Indicators**

- 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) Affordability Indicators**

- 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 NET 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 NET 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.

## Annual Minimum Revenue Provision Statement 2017/18

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. This policy was introduced in 2016/17 and 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 or reduce the outstanding debt in line with the principal repayment profile in the 3<sup>rd</sup> 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 2017/18 will not be subject to a MRP charge until 2018/19.

## **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

### Existing Investment & Debt Portfolio Position

	At 31 December 2016 Actual Portfolio £m	Average Rate %
<b>External Borrowing:</b>		
PWLB – Fixed Rate	570.576	4.16
PWLB – Variable Rate	54.295	0.65
Local Authorities	70.000	0.27
Market Loans inc LOBO's	49.000	4.35
Bonds/Stock	0.619	3.00
Other	0.895	0.25
<b>Total External Borrowing</b>	<b>745.385</b>	<b>3.55</b>
<b>Other Long Term Liabilities:</b>		
PFI & Finance Leases	225.700	
<b>Total Gross External Debt</b>	<b>971.085</b>	
<b>Investments:</b>		
Short-term investments		
- Banks	10.000	0.58
- Other LA's	10.000	1.40
Long-term investments	0.00	
Money Market/Pooled Funds	41.600	0.26
<b>Total Investments</b>	<b>61.600</b>	<b>0.50</b>
<b>Net Debt</b>	<b>827.428</b>	



**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.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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
Increased proportion of borrowing using 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
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
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

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.

## 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
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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: January 2017	Next Review: April 2017	
Prevailing Summary risk Threat Level (LxI)		5.04 (average) (1.86 x 2.71 )	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 3 = 3	1 x 3 = 3
2	Inappropriate borrowing strategy (TMP 1.2, 1.3, 1.5 & 1.8)		3 x 3 = 9	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)		1 x 3 = 3	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

Impact of UK referendum (Brexit) on the Treasury Management Risk Register	No change to risk ratings, but will review as situation developments
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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	<ul style="list-style-type: none"> <li>Continued use of external advisors – Tender exercise in progress with contract to be awarded to commence from April '17 to March '21</li> <li>Use of counterparties list based on range of formal credit ratings and wider market intelligence and advice</li> <li>Limits set for amounts and time periods with individual institutions</li> <li>Counterparty limits amended as and when required and future investments suspended if deemed appropriate</li> <li>TM and investment strategy reviewed and amended as</li> </ul>	EFFECTIVE	<ul style="list-style-type: none"> <li>Maintain equivalent arrangements</li> <li>Internal audit plan includes 16 scheduled audit days per annum.</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>Monthly check by S151 officer of current investments.</li> </ul>	Ongoing	Ongoing
						<ul style="list-style-type: none"> <li>Latest Internal Audit report findings give “High assurance on controls” (May 16)</li> </ul>	Ongoing	As received
						<ul style="list-style-type: none"> <li>Weekly meetings with portfolio holder</li> </ul>	Ongoing	Weekly
						<ul style="list-style-type: none"> <li>TM Panel meets regularly to review the overall position.</li> </ul>	Ongoing	Quarterly
						<ul style="list-style-type: none"> <li>Implementation of amendments to the</li> </ul>	Ongoing	As required

	<p>required</p> <ul style="list-style-type: none"> <li>Quarterly review of the investment portfolio carried out at TM Panel meetings.</li> <li>Monitoring of wider economic environment provided by advisors, with amendments to the existing strategy, as required.</li> <li>Regular reviews of interest rate forecasts</li> <li>Up to date knowledge of existing and developing investment products through regular attendance at seminars and workshops</li> <li>CFO action under delegation (and in consultation with portfolio holder) to respond quickly to emerging issues.</li> </ul>					<p>investment strategy when appropriate</p> <ul style="list-style-type: none"> <li>TM colleagues work with advisors and colleagues to keep abreast of wider economic conditions and respond accordingly.</li> </ul>	Ongoing	Quarterly
2	<ul style="list-style-type: none"> <li>Identification and monitoring of annual borrowing requirement</li> <li>Monitoring of PWLB</li> </ul>	EFFECTIVE	<ul style="list-style-type: none"> <li>Capital programme review completed</li> </ul>	GO	GW  TC	<ul style="list-style-type: none"> <li>Sufficient resources identified to cover capital expenditure and</li> </ul>	Ongoing	Quarterly

	borrowing rates <ul style="list-style-type: none"> <li>• Monitor exposure to changes in long term interest rates</li> <li>• Use of alternative loan products as appropriate</li> <li>• Regular review of arrangements and possibilities</li> <li>• Review of capital programme, informing new capital strategy.</li> <li>• Retention of strong external advisors</li> <li>• Optimise debt levels by maintaining a CIPFA Liability Benchmark, to monitor Minimum Revenue Provision against debt and Capital Financing Requirement</li> <li>• Opportunities for rescheduling identified and implemented</li> </ul>		<ul style="list-style-type: none"> <li>• Maintain existing arrangements</li> <li>• Continued strong performance of external advisors</li> </ul>			cash flows <ul style="list-style-type: none"> <li>• Continued regular review by TM Panel.</li> </ul>	Ongoing	Quarterly
3	<ul style="list-style-type: none"> <li>• Treasury Costs in MTFP based on latest capital program and balance sheet forecasts</li> <li>• Regular review of capital program</li> </ul>	ONGOING	<ul style="list-style-type: none"> <li>• Continued support from external advisors</li> <li>• Continue to improve links between Capital and</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>• Continued regular review by TM Panel</li> </ul>	At TM Panel meetings	Quarterly

	<ul style="list-style-type: none"> <li>• Monitor Interest rate forecasts</li> <li>• Retention of strong external advisors</li> <li>• Support Corporate Finance Team to identify and monitor revenue impact of capital program</li> </ul>		Treasury					
4	<ul style="list-style-type: none"> <li>• Benchmark other Local Authorities MRP policies</li> <li>• Attendance of Treasury/Finance workshops on MRP policy reviews</li> <li>• Following full review in 15/16, annually review of MRP in the light of prevailing and forecast circumstances</li> <li>• Incorporate new changes to policy and financial implications into MTFP</li> </ul>	ONGOING	<ul style="list-style-type: none"> <li>• Compare policy plans at 6 monthly Core Cities meetings</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>• Continued regular review by TM Panel.</li> </ul>	At TM Panel meetings	At least Quarterly
				GO	GW	<ul style="list-style-type: none"> <li>• Changes to policy included in TM Strategy Report</li> </ul>	Annual TM strategy	Annual



5	<ul style="list-style-type: none"> <li>• Use of cash forecasting models, with regular monitoring and updates undertaken</li> <li>• Track record is sound</li> <li>• Continuous adaptation of model in the light of prevailing and forecast circumstances</li> <li>• Monitor availability new short term loans from other local authorities</li> <li>• Require to incorporate the cash implications of capital program</li> </ul>	ONGOING	<ul style="list-style-type: none"> <li>• Maintain existing arrangements</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>• Continued regular review by TM Panel</li> </ul>	TM Panel meetings	Quarterly
6	<ul style="list-style-type: none"> <li>• System of delegation and approved processes</li> <li>• Separation of duties between treasury management dealing and accounting</li> <li>• Use of professional indemnity insurance</li> <li>• Governance checks in place – e.g.: review by s151 officer and TM Panel in place and satisfactory outcomes to date</li> </ul>	EFFECTIVE	<ul style="list-style-type: none"> <li>• Periodic system tests</li> <li>• Maintain existing arrangements – to be changed if testing identifies any issues</li> <li>• Maintenance of an updated Treasury Management Manual of Procedures and Practices</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>• Satisfactory outcome of internal audit review</li> <li>• Continuing satisfactory outcome of checks by s151 officer and system tests.</li> <li>• TM Panel review is robust</li> </ul>	<p>Internal audit reports</p> <p>Ongoing TM Panel meetings</p> <p>TM Panel meetings</p>	<p>Quarterly</p> <p>Ongoing</p> <p>Ongoing</p>

7	<ul style="list-style-type: none"> <li>• Formal adoption of Code in place since inception.</li> <li>• Updates are reflected in annual review of TM and Investment Strategies</li> <li>• Review of requirements to take place as early as possible</li> <li>• Training on accounting issues</li> <li>• Regular attendance at treasury management workshops and seminars</li> <li>• Provide councillor training to ensure adequate scrutiny of Treasury activities</li> </ul>	EFFECTIVE	<ul style="list-style-type: none"> <li>• Existing arrangements to continue</li> <li>• LAAP bulletin updates to be identified through specific closedown action note</li> </ul>	GO	GW	<ul style="list-style-type: none"> <li>• Continued application of current arrangements</li> <li>• Revisions are promptly and accurately reflected</li> <li>• Satisfactory internal audit review outcome</li> <li>• Robust appraisal by TM Panel</li> </ul>	Ongoing  Annual TM and investment strategy  Audit report  TM Panel meetings	Ongoing  Annual  Annual  At least quarterly
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