Appendix 1

NOTTINGHAM CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2018/19

CONTENTS	
SECTION	**PAGE**

TABLES	
TABLE	**PAGE**

APPENDICES	
ITEM	**PAGE**

Executive Board 20 February 2018
Audit Committee 27 April 2018
City Council 5 March 2018

Introduction

Background: The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

Reporting requirements: The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – This will update councillors with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Capital Strategy

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

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

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

External Context

Economic background: After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole

Interest rate forecast: The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.
The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently

A more detailed interest rate forecast provided by Link Asset Services 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 0.45%, short-term loans will be borrowed at an average of 0.50% and that new long-term loans will be borrowed at an average rate of 2.80%.

Local Context

The Council has £886.0m of borrowing and £67.0m of investments as at 31 December 2017 set out in further detail within 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 Requirements

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m
General Fund CFR	1,000.2	1,070.3	1,084.0	1,119.4	1,128.6
HRA CFR	280.3	294.1	304.6	305.9	308.7
Total CFR	**1,280.5**	**1,364.4**	**1,388.6**	**1,425.3**	**1,437.3**
Less: Other debt liabilities *	- 226.0	- 208.0	- 201.0	- 191.4	- 181.8
Borrowing CFR	**1,054.5**	**1,156.4**	**1,187.6**	**1,233.9**	**1,255.5**
Less: External borrowing **	- 788.9	- 884.7	- 849.4	- 795.6	- 778.4
Internal borrowing	**265.6**	**271.7**	**338.2**	**438.3**	**477.1**
Less: Usable reserves & working capital	304.0	252.4	234.8	223.2	213.3
(Investments) or New borrowing * **	**- 38.4**	**19.3**	**103.4**	**215.1**	**263.8**

* 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
*** estimate does not include provision for maintaining c.£30m investments held for liquidity management so actual borrowing required may be higher.

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, and minimal investments and will therefore expect to borrow £264m 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 2018/19.

Borrowing Strategy

As at 31 December the Council holds £886.0m of loans (excluding £212.0m PFI debt), an increase of £97.1m on the previous year, as part of its strategy for funding this and previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £103.4m by

the end of 2018/19 at which point external debt will be around £952.8m (£1,153.8 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 £1,353.8 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 is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Based on the current central case forecast the Council will look to partially fund the borrowing requirement from short term loans at low interest rates whilst allowing flexibility to take advantage of longer term funding opportunities to fix the interest rate and so reduce the overall level of interest rate exposure. Any borrowing will be subject to the Council's limits on the exposure to 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 0.50% 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 50 year PWLB debt is currently (2.40% - 0.50%) = £190,000 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 have around £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 balance the level of 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 2018/19 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 2018/19, 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 2018/19, 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 £25m and £67m, 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.

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	£10m 20 years	£10m 50 years
AA+	£10m 2 years	£10m 10 years	£10m 25 years
AA	£10m 2 years	£10m 5 years	£10m 15 years
AA-	£10m 2 years	£10m 4 years	£10m 10 years
A+	£10m 2 years	£10m 3 years	£10m 5 years
A	£10m 13 months	£10m 2 years	£10m 5 years
A-	£10m 6 months	£10m 13 months	£10m 5 years
None	n/a	n/a	£10m 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 (CNAV/LVNAV funds) will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices (VNAV funds) 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 AAA from at least one of the main credit rating agencies.

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 treasury 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.£116 million on 31st March 2018. 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 unsecured to any one organisation (other than the UK Government) will be £10 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	£10m 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.

The CIPFA Code requires the responsible officer to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny. The training was provided to councillors including Audit Committee on Treasury Management on 30 October 2017 and further training will be arranged as required.

Investment Advisers: The Council uses Link Asset Services as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources whilst understanding that the responsibility for treasury management decisions remains with the council at all times and will ensure that undue reliance is not placed upon our external service providers.

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 £1,320 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.

Management practices for Non-Treasury Investments: The council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The council will ensure that all investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

Interest Rate Forecast and Commentary - December 2017

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds

to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Appendix 3

PRUDENTIAL INDICATORS 2016/17 – 2020/21					
	2016/17 Act £m	**2017/18 Est £m**	**2018/19 Est £m**	**2019/20 Est £m**	**2020/21 Est £m**
1. PRUDENCE INDICATORS					
i) Capital Expenditure					
General Fund	178.2	186.0	113.0	104.8	65.2
HRA	56.3	59.9	59.3	41.9	36.4
	234.5	**245.9**	**172.3**	**146.7**	**101.6**
ii) CFR at 31 March					
General Fund	774.2	862.3	883.0	928.0	946.8
HRA	280.3	294.1	304.6	305.9	308.7
PFI-related debt	226.0	208.0	201.0	191.4	181.8
	1,280.5	**1,364.5**	**1,388.6**	**1,425.2**	**1,437.3**
iii) External Debt at 31 March					
Borrowing	788.9	904.0	952.8	1,010.7	1,042.3
Other (PFI debt)	226.0	208.0	201.0	191.4	181.8
Gross Debt	**1,014.9**	**1,112.0**	**1,158.8**	**1,202.1**	**1,224.1**
2. AFFORDABILITY INDICATORS					
i) Ratio of financing costs to net revenue stream					
General Fund	12.80%	15.32%	16.07%	17.23%	19.18%
HRA	12.00%	12.37%	12.99%	13.16%	13.39%
		£m	**£m**	**£m**	**£m**
ii) Authorised limit for external debt		1,300.0	1,353.8	1,402.1	1,424.1
iii) Operational Boundary for ext. debt		1,275.0	1,313.8	1,362.1	1,384.1
iv) HRA limit on indebtedness					
HRA CFR		294.1	304.6	305.9	308.7
HRA Debt Cap (CLG prescribed)		319.8	319.8	319.8	319.8
Difference - headroom		**25.7**	**15.2**	**13.9**	**11.1**
3. TREASURY MANAGEMENT INDICATORS					
i) Upper limit on variable interest rate exposure	200.7	175.5	300.0	300.0	300.0
ii) Debt maturity structure					
- under 12 months	17%	10%	0-25%	0-25%	0-25%
- 12 months to 2 years	4%	4%	0-25%	0-25%	0-25%
- 2 to 5 years	12%	11%	0-25%	0-25%	0-25%
- 5 to 10 years	16%	14%	0-25%	0-25%	0-25%
- 10 to 25 years	24%	20%	0-50%	0-50%	0-50%
- 25 to 40 years	21%	18%	0-50%	0-50%	0-50%
- 40 years and above	6%	24%	0-50%	0-50%	0-50%
iv) Sums invested for >365 days					
- in-house limit	£0m	£0m	£100m	£50m	£20m
v) 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 including schemes in development.

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) *'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.

iii) *'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.

iv) *'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 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 and lower limits with respect to the maturity structure of the Council's borrowing'* – this shows the amount of borrowing maturing in each period, expressed as a percentage of total borrowing.

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

iii) *'Total sums invested for periods of greater than 365 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.

iv) *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 2018/19

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, the MRP policy will be to charge an amount per Schedule A below. This charge is based on the principle of repaying the outstanding balance as 31 March 2016 over a 50 year period (2066/67) as per profile approved in 2017/18.

- 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 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 2018/19 will not be subject to a MRP charge until 2019/20.

Schedule A - MRP profile for outstanding Supported Borrowing

Supported Borrowing is capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date.

	Year	MRP Payment	Supported Borrowing Balance
2	2018/19	76,894	204,887,243
3	2019/20	76,894	204,810,349
4	2020/21	76,894	204,733,455
5	2021/22	76,894	204,656,561
6	2022/23	76,894	204,579,667
7	2023/24	76,893	204,502,774
8	2024/25	4,755,878	199,746,895
9	2025/26	4,755,878	194,991,017
10	2026/27	4,755,878	190,235,138
11	2027/28	4,755,878	185,479,260
12	2028/29	4,755,878	180,723,381
13	2029/30	4,755,878	175,967,503
14	2030/31	4,755,878	171,211,624
15	2031/32	4,755,878	166,455,746
16	2032/33	4,755,878	161,699,867
17	2033/34	4,755,878	156,943,989
18	2034/35	4,755,878	152,188,111
19	2035/36	4,755,878	147,432,232
20	2036/37	4,755,878	142,676,354
21	2037/38	4,755,878	137,920,475
22	2038/39	4,755,878	133,164,597
23	2039/40	4,755,878	128,408,718
24	2040/41	4,755,878	123,652,840
25	2041/42	4,755,878	118,896,961
26	2042/43	4,755,878	114,141,083
27	2043/44	4,755,878	109,385,204
28	2044/45	4,755,878	104,629,326
29	2045/46	4,755,878	99,873,448
30	2046/47	4,755,878	95,117,569
31	2047/48	4,755,878	90,361,691
32	2048/49	4,755,878	85,605,812
33	2049/50	4,755,878	80,849,934
34	2050/51	4,755,878	76,094,055
35	2051/52	4,755,878	71,338,177
36	2052/53	4,755,878	66,582,298
37	2053/54	4,755,878	61,826,420
38	2054/55	4,755,878	57,070,541
39	2055/56	4,755,878	52,314,663
40	2056/57	4,755,878	47,558,785
41	2057/58	4,755,878	42,802,906
42	2058/59	4,755,878	38,047,028
43	2059/60	4,755,878	33,291,149
44	2060/61	4,755,878	28,535,271
45	2061/62	4,755,878	23,779,392
46	2062/63	4,755,878	19,023,514
47	2063/64	4,755,878	14,267,635
48	2064/65	4,755,878	9,511,757
49	2065/66	4,755,878	4,755,878
50	2066/67	4,755,878	-

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

	31 December 2017 Actual Portfolio £m	Average Rate %
External Borrowing:		
PWLB – Fixed Rate	713.864	3.74
PWLB – Variable Rate	54.295	0.65
Local Authorities	68.000	0.39
Market Loans inc LOBO's	49.000	4.35
Bonds/Stock	0.619	3.00
Other	0.195	0.25
Total External Borrowing	**885.973**	**3.33**
Other Long Term Liabilities: PFI & Finance Leases	211.990	
Total Gross External Debt	**1,097.963**	
Investments:		
Short-term investments		
- Banks	10.000	0.57
- Other LA's	10.000	0.40
Long-term investments	0.00	
Money Market/Pooled Funds	47.000	0.36
Total Investments	**67.000**	**0.40**
Net Debt	**1,030.963**	

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
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.

APPENDIX 9

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

Treasury Management Risk Management Action Plan (RMAP)			
Owned by: CD – Strategic and Resources	Completed by: Treasury Management Panel	Completed: December 2017	Next Review: February 2018
Prevailing Summary risk Threat Level (LxI)	5.00 (average) (2.00 x 2.50)	Target summary Risk Threat Level	3.75 (average) (1.50 x 2.50)
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 2 = 2	1 x 3 = 3
2	Inappropriate borrowing strategy (TMP 1.2, 1.3, 1.5 & 1.8)	3 x 3 = 9	3 x 2 = 6
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)	2 x 3 = 6	1 x 3 = 3
6	Colleague fraud (TMP 1.7 & 5)	2 x 2 = 4	1 x 2 = 2
7	Process failure for making urgent payments by chaps (TMP5)	2 x 2 = 4	2 x 2 = 4
8	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

<table>
<tr><th colspan="9">Current Management Action / Controls Acting on Risk?
Delete as applicable: Some</th></tr>
<tr><th rowspan="2">Risk Ref.</th><th rowspan="2">Current Management/actions in place</th><th rowspan="2">Adequacy of action/control to mitigate risk</th><th rowspan="2">Additional management action/ controls</th><th colspan="2">Responsibility for additional action</th><th rowspan="2">Critical success factors of additional actions</th><th colspan="2">Key Dates</th></tr>
<tr><th>CD</th><th>D/ HoS</th><th>Additional controls complete</th><th>Progress review frequency</th></tr>
<tr><td>1</td><td>• Continued use of external advisors – Link Asset Services offered contract to March 2021 and services commenced from April ’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</td><td>EFFECTIVE</td><td>• Report on confidence of work vs specification so far
• Internal audit plan includes 16 scheduled audit days per annum.</td><td>CB</td><td>TC</td><td>• Monthly check by S151 officer or deputy of current investments.
• Latest Internal Audit report findings give “High assurance on controls” (May 17)
• Weekly meetings with portfolio holder
• TM Panel meets regularly to review the overall position.
• Implementation of amendments to the</td><td>Ongoing
Ongoing
Ongoing
Ongoing
Ongoing</td><td>Ongoing
As received
Weekly
Quarterly
As required</td></tr>
</table>

	the investment 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.					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 • Monitor exposure to	EFFECTIVE	• Capital programme review completed • Strong	CB	TC TC	• Sufficient resources identified to cover capital expenditure and cash flows • Continued	Ongoing Ongoing	Quarterly Quarterly

	changes in long term interest rates • Use of alternative loan products as appropriate • Regular review of arrangements and possibilities • Review of capital programme, informing new capital strategy. • Retention of strong external advisors • Optimise debt levels by maintaining a CIPFA Liability Benchmark, to monitor Minimum Revenue Provision against debt and Capital Financing Requirement • Opportunities for rescheduling identified and implemented		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	ONGOING	• Continued support from external advisors • Continue to improve links between Capital and Treasury	CB	TC	• Continued regular review by TM Panel	At TM Panel meetings	Quarterly

	• Retention of strong external advisors • Support Corporate Finance Team to identify and monitor revenue impact of capital program							
4	• Benchmark other Local Authorities MRP policies • Attendance of Treasury/Finance workshops on MRP policy reviews • Following full review in 15/16, annually review of MRP in the light of prevailing and forecast circumstances • Incorporate new changes to policy and financial implications into MTFP • Incorporate revisions to CIPFA guidance and MRP regulations	ONGOING	• Compare policy plans at 6 monthly Core Cities meetings	CB CB	TC TC	• 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	ONGOING	• Maintain existing arrangements	CB	TC	• Continued regular review by TM Panel	TM Panel meetings	Quarterly

	prevailing and forecast circumstances • Monitor availability new short term loans from other local authorities • Require to incorporate the cash implications of capital program • Require to incorporate forecasts from Property colleagues around property acquisitions					• Remain within targets for cash management local indicator • No breaches of debt limits set in strategy		
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	CB	TC	• 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	• Ensure availability of approvers • Approvers to use payment fobs		• System tests on existing controls	CB	TC	• Satisfactory review outcome		

	quarterly to ensure account doesn't get frozen							
8	• Formal adoption of 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	EFFECTIVE	• Existing arrangements to continue • LAAP bulletin updates to be identified through specific closedown action note	CB	TC	• Continued application of current arrangements • Revisions are promptly and accurately reflected • Satisfactory internal audit review outcome • Robust appraisal by TM Panel	Ongoing Annual TM and investment strategy Audit report TM Panel meetings	Ongoing Annual Annual At least quarterly