EXECUTIVE BOARD - 21 FEBRUARY 2012

<table>
<tr><td>**Title of paper:**</td><td colspan="2">**TREASURY MANAGEMENT 2012/13 STRATEGY**</td></tr>
<tr><td>**Director(s)/
Corporate Director(s):**</td><td>Carole Mills-Evans
Deputy Chief Executive & Corporate Director for Resources</td><td>**Wards affected:**
All</td></tr>
<tr><td>**Portfolio Holder(s):**</td><td>Councillor Graham Chapman,
Portfolio Holder for Resources, Economic Development and Reputation</td><td>**Date of consultation with Portfolio Holder(s):**
Throughout January/ February 2012</td></tr>
<tr><td>**Report author and contact details:**</td><td colspan="2">Jeff Abbott, Head of Corporate and Strategic Finance
Tel: 0115 8763648
E-mail: jeff.abbott@nottinghamcity.gov.uk</td></tr>
<tr><td>**Other colleagues who have provided input:**</td><td colspan="2">Pete Guest, Treasury Management Officer
Tel: 0115 8764163
E-mail: pete.guest@nottinghamcity.gov.uk</td></tr>
</table>

Key Decision:	No
Reasons for Key Decision:	
Taking account of the overall impact of the expenditure:	
Expenditure of £1,00,000 or more	
Revenue income of £1,00,000 or more	
Savings of £1,00,000 or more	
Capital expenditure of £1,000,000 or more	
Capital income of £1,000,000 or more	
To be significant in terms of its effects on communities living or working in an area consisting two or more wards in the City	
Relevant Council Plan Strategic Priority:	
World Class Nottingham	✓
Work in Nottingham	✓
Safer Nottingham	✓
Neighbourhood Nottingham	✓
Family Nottingham	✓
Healthy Nottingham	✓

Summary of issues (including benefits to customers/service users):

This report sets out the treasury management and investment strategies for 2012/13 including the debt repayment strategy (**Annex 1**). The associated Prudential Indicators are shown within an appendix to the strategy, along with existing risks and a glossary of technical terms.

Recommendation(s):

1 To endorse and recommend for approval by the City Council at its meeting on 5 March 2012:

- Revisions to the formally adopted Treasury Management Policy Statement (**Appendix 1)**
- The overall Treasury Management Strategy for 2012/13 **(Annex 1)**
- The strategy for debt repayment in 2012/13 **(section 5** of **Annex 1)**
- The Housing Revenue Account Treasury Management Strategy for 2012/13 **(section 6** of **Annex 1)**
- The Investment Strategy for 2012/13 **(section 7** of **Annex 1)**

	▪ The prudential indicators and limits from 2010/11 to 2014/15 **(Appendix A** within **Annex 1)**

1 BACKGROUND

1.1 Treasury management is a term used to describe the management of an organisation's borrowing and investments, their associated risks and the pursuit of optimum performance or return consistent with those risks.

1.2 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 Treasury Management Code of Practice.

1.3 External advisors are retained 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.

1.4 The Treasury Management and Investment Strategies will be considered by Audit Committee on 2 March 2012, as part of the scrutiny process required by the CIPFA Code. Their decisions will be reflected in the report submitted to City Council for final approval.

2 REASONS FOR RECOMMENDATIONS (INCL. OUTCOMES OF CONSULTATION)

2.1 To comply with:

- Financial Regulations and the CIPFA Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year.
- Guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April.
- Guidance issued by the Secretary of State under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP).

3 TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2012/13

3.1 The Treasury Management Strategy sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the strategy (i.e. treasury, investment and debt) are set out at **Annex 1**. The objectives of the strategy are:

- To achieve the lowest net interest rate costs on the Council's external debt, whilst recognising the risk management implications.
- To protect the Medium Term Financial Plan (MTFP) from the unbudgeted financial impact of 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.

3.2 Department for Communities for Local Government (DCLG) guidance on local authority investments requires an annual investment strategy to be in place before the financial year in which it applies. This is incorporated within the Treasury Management Strategy and provides details of the ways in which investments will be managed to protect the Council's financial position and the value of funds invested, whilst ensuring that the returns obtained are appropriate given the stated attitude to risk. The DCLG guidance reiterates security and liquidity as the primary objectives of a prudent investment policy. These are principles embraced by the Council.

3.3 The main changes to the proposed strategy for 2012/13 are:

- An addition to the policy for the revenue provision for repayment of debt in respect of the Housing Revenue Account (HRA) (**section 5 of Annex 1).**
- The introduction of a separate treasury management strategy for the HRA (**section 6 of Annex 1**).
- Changes to the investment strategy (**section 7 of Annex 1**), reflecting ongoing economic problems within the Euro-zone, and the implications for financial institutions.

4 PRUDENTIAL INDICATORS (ANNEXE 1, APPENDIX A)

4.1 The Prudential Code
The Code requires a series of Prudential Indicators (PIs) to be set and approved for the forthcoming and following two financial years. These financial indicators are derived from proposed treasury management activity and provide insight into the financial impact of activities. **Appendix A** within the Treasury Management Strategy (**Annex 1)** sets out the indicators for 2012/13 to 2014/15 that are expected to be generated by the proposed strategies, along with explanatory notes.

4.2 Changes to Prudential Indicators
There have been two additions to the PIs from 1 April 2012:

- An amendment to the External Debt indicator, providing details of *gross* and *net* debt (i.e. debt less investments), to enable a better comparison with the Capital Financing Requirement, the underlying need to borrow, and highlighting any borrowing in advance of need.
- A new indicator, comparing the HRA Capital Financing Requirement with the borrowing cap prescribed by DCLG.
- A new indicator on credit risk, highlighting the key creditworthiness factors that the City Council monitors.

5 TREASURY MANAGEMENT POLICY STATEMENT

5.1 The Council has previously formally adopted a Treasury Management Policy Statement (TMPS) in respect of its treasury management activities. From time to time, revisions to the Statement may be required. In November 2011, CIPFA issued an updated Treasury Management Code of Practice which included a requirement for the TMPS to include the Council's high level policies for borrowing and investments. **Appendix 1** within this report details the revised TMPS.

6 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

6.1 Options for management of the debt and investment portfolio are continually reviewed.

The overall aim is to minimise the net revenue costs of the debt whilst maintaining an even debt profile in future years, and to maximise investment returns within stated security and liquidity guidelines.

7 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

7.1 Total treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of our debt relates to capital expenditure on council housing and this is currently recharged to the HRA and funded through the Housing Subsidy system. The remaining costs are included within the treasury management section of the General Fund budget.

From 1 April 2012, as part of the Government's council housing reform proposals, two separate debt portfolios will be maintained, for the General Fund and the HRA, with interest charged directly to the respective revenue accounts. (**Section 6 of Annex 1** provides more details on this change). **Table 1** sets out the treasury management revenue budget for 2012/13:

TABLE 1: TREASURY MANAGEMENT - REVENUE BUDGET POSITION			
DESCRIPTION	**BUDGET 2011/12 £m**	**FORECAST OUTTURN 2011/12 £m**	**BUDGET 2012/13 £m**
External interest	23.703	25.686	30.277
Less: HRA interest	(11.629)	(11.786)	(12.781)
Debt repayment provision	16.631	16.113	31.426
General Fund expenditure	**28.705**	**30.013**	**48.922**
Investment interest	(1.885)	(1.611)	(1.501)
Prudential borrowing recharge	(1.303)	(0.678)	(0.562)
Transfer to / (from) Reserve	3.310	3.576	-
NET GENERAL FUND POSITION	**28.827**	**31.300**	**46.859**

The 2011/12 forecast outturn now includes an additional £2.4m for the interest costs of the £250m loan raised in the year to terminate the Nottingham Express Transit Line One contract, as part of the development of Phase 2 of this capital scheme. Resources to meet this additional revenue expenditure, from a combination of existing earmarked reserves and Government Private Finance Initiative (PFI) Grant, are included elsewhere within the corporate section of the revenue budget.

The 2012/13 budget of £46.859m reflects the full year revenue cost of the NET Line One termination loan, including a set-aside for debt repayment, plus further proposed prudential borrowing in respect of NET Phase 2 land acquisitions and capital works on the railway station 'Hub' scheme. The debt interest and principal costs for all this debt are to be financed from a combination of earmarked reserves, PFI Grant and the newly introduced Workplace Parking Levy.

8 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS)

8.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

The key Strategic Risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 5.3 (Likelihood = unlikely, Impact = moderate) which represents a reduction from the previous rating. Details of the Risk Management Action Plan are provided in **Annex 1, Appendix B.**

9 EQUALITY IMPACT ASSESSMENT (EIA)

9.1 This report does not contain proposals for new or changing services or functions.

10 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

10.1 PWLB records, working papers

11 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

11.1 Local Authorities (Capital Finance and Accounting) regulations 2008
The Prudential Code for Capital Finance in Local Authorities 2011 – CIPFA
Treasury Management in the Public Services, Code of Practice 2011 – CIPFA

NOTTINGHAM CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2012/13

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TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2012/13

1. Context

Medium Term Financial Strategy (MTFS)
The MTFS sets out the arrangements for the planning and management of the Council's finances. Strategic Principle G sets out the overall context for the Council's treasury management activities, as follows:

G1 All borrowing and debt management activity will be carried out in accordance with the annually approved Treasury Management Strategy and the Manual of Treasury Management Practices and Procedures, and within approved Prudential Indicators, having the highest regard for prudence, affordability and sustainability in the longer term.

G2 The management of the treasury investment portfolio will be in accordance with the approved investment strategy, with all investments complying with counterparty limits and restrictions.

G3 Appropriate use of prudential borrowing to fund capital investment will be made within prudential indicators and subject to medium term affordability.

The Debt Portfolio
Management of the Council's debt portfolio is a key element of the Treasury Management Strategy. At 31 March 2012 the total value of the portfolio will be c £755m (excluding PFI notional 'debt'), borrowed at an average interest rate of 3.81%. In 2012/13 total debt is forecast to increase to c £795m (again, excluding PFI-related debt.) Gross interest on all debt in 2012/13 is estimated at c £30.277m.

The Investment Portfolio
An investment portfolio is also maintained to ensure that its surplus cash (working capital, reserves and provisions) earns interest whilst being held. The average value of investments during 2011/12 is estimated at c £134m (excluding monies in Icelandic banks). During 2012/13 an average balance of c £140m is forecast.

The average return on investments during 2011/12 is expected to be 1.08%. Short-term interest rates are forecast to remain relatively static during 2012/13, and, with a planned shorter maturity profile for the investment portfolio (see **Section 7)**, the average return on investments is forecast to fall to c1.00% for the year.

Market Conditions
The Treasury Management Strategy seeks to protect the Council from market related risks by proactively monitoring key factors such as interest rates and economic opinions, both nationally and internationally. The adopted strategy will continue to be regularly reappraised and, if necessary, realigned to reflect market conditions and changes to interest rate forecasts.

Outlook for interest rates
The Bank of England base rate has remained at its all-time low of 0.50% since March 2009. The current forecast is for this rate to remain throughout 2012/13 and beyond. Longer-term rates are currently very low as a result of the Government's quantitative easing programme and are expected to remain within a narrow band in the medium-term.

Table 1 shows actual interest rates at 31 December 2011 and projected rates until the end of March 2014, based on forecasts from the Council's advisors. Short-term rates inform decisions on the investment of surplus monies, and rates for long-term borrowing are linked to the Government Gilt rates for the appropriate period.

TABLE 1: PROJECTED MOVEMENTS IN INTEREST RATES 2011 - 2014								
YEAR	**END PERIOD**	**BASE RATE**	**MONEY RATES**			**LONG TERM GILT RATES**		
			3 MONTHS	**6 MONTHS**	**12 MONTHS**	**5 YEARS**	**20 YEARS**	**50 YEARS**
2011	Dec	0.50	1.05	1.35	1.80	1.25	3.00	3.35
2012	Mar	0.50	1.00	1.25	1.75	1.30	3.05	3.40
	Jun	0.50	1.00	1.25	1.75	1.35	3.05	3.50
	Sep	0.50	0.75	1.00	1.75	1.40	3.10	3.60
	Dec	0.50	0.75	1.00	1.75	1.50	3.20	3.70
2013	Mar	0.50	0.75	1.00	1.80	1.60	3.25	3.80
	Jun	0.50	0.75	1.00	1.85	1.70	3.30	3.90
	Sep	0.50	0.75	1.00	1.95	1.80	3.35	4.00
	Dec	0.50	0.75	1.00	2.00	2.00	3.40	4.00
2014	Mar	0.50	0.75	1.00	2.10	2.10	3.45	4.00

Interest rate forecasts are usually prepared with an 'upside' and a 'downside' risk, because they may move by more or less than forecast. The current conflict is between preventing a return to recession (keeping a low base interest rate for longer) and a desire to curb inflationary pressures (increasing base rates faster). With the inflation rate falling in December and expected to continue its fall in 2012, the more likely outcome is for rates to stay 'lower for longer'.

2. Strategic Principles

The Council's treasury management activities will be undertaken with the following strategic aims and objectives:

1. To achieve the minimum interest rate cost on external debt, whilst recognising the risk management implications;
2. To protect the capital value of external cash investments and ensure the liquidity of those investments;
3. To provide an income stream from investments and maximise this stream, within the stated parameters of security and liquidity;
4. To apply mitigation to the risks associated with treasury management activity;
5. To seek to follow best practice at all times.

The actual outcomes against these strategic principles can be assessed by the use of prudential indicators and associated commentary. **Table 2** lists which of the prudential indicators set out in **Appendix A** relate to each of the principles.

TABLE 2: STRATEGIC PRINCIPLES LINK TO PRUDENTIAL INDICATORS	
PRINCIPLE	**PIs**
1	2i, 2iii, 2iv, 2v, 3i, 3ii, 3iii, 3v, 3vi
2	3iv, 3v
3	3iv, 3v
4	3v
5	3v

Within these principles, specific strategies will be adopted in 2012/13 in respect of:

- Borrowing
- Debt rescheduling
- Provision for repayment of debt
- Management of the HRA debt portfolio
- Investments
- Reporting
- Training, and
- Management of risk

These strategies are addressed in the following paragraphs.

3. Overall Borrowing Requirement and Strategy

The Council undertakes borrowing to:

- Finance capital expenditure not met from other sources (e.g. grants, capital receipts etc.)
- Replace maturing debt (net of minimum revenue provision)
- Finance cash flow in the short-term

The primary risks associated with the management of a debt portfolio are the uncertain future fluctuations in interest rates and an uneven loan maturity profile, requiring large amounts of debt to be replaced in any single period. To mitigate this risk, the debt portfolio is managed with the aim of reducing the annual revenue cost of borrowing and evenly spreading the debt maturity profile. **Table 3** shows the estimated total borrowing requirement for 2012/13, reflecting the current capital programme:

TABLE 3: TOTAL BORROWING REQUIREMENT 2012/13	
	£m
Debt maturing during the year	33.909
Supported borrowing 2012/13:	
HRA	0.000
General Fund	0.000
Unsupported borrowing 2012/13:	
HRA	0.000
General Fund	47.700
Less: revenue provision for repayment:	
HRA	(1.024)
General Fund	(26.790)
TOTAL	**53.795**

The Council can raise borrowing from the following sources:

- The Public Works Loan Board (PWLB)
- Local authorities
- Money markets
- Commercial banks and other institutions
- European Investment Bank
- Capital markets (stock issues, bills etc)
- Structured finance
- Leasing.

As part of central Government's Comprehensive Spending Review in October 2010, PWLB rates were increased to 1% above the cost of the Government's own borrowing, to control public sector debt. However, the PWLB still remains an attractive source of borrowing, because of its ease of access, borrowing flexibility and low interest rates. Over 90% of the Council's current external debt has been raised from the PWLB and this proportion is likely to be continued. The type, period, and timing of new borrowing will be determined by the Chief Finance Officer (CFO), under delegated authority, taking into account the following factors:

- Expected movements in interest rates
- The maturity profile of existing debt
- The impact on the medium term financial strategy
- Prudential indicators and limits.

The use of short-term borrowing will be continued whilst those interest rates remain low and the forecast for longer-term rates remains relatively benign. In addition, with the average return on investments at around 1%, and the cost of long-term borrowing being >4%, surplus cash will be used to replace long-term borrowing on a temporary basis.

The introduction of the Localism Act from 1 April 2012 provides local authorities with additional legal powers, under a General Power of Competence. Those powers include, in theory, the opportunity to utilise financial instruments such as derivatives, which enable the management of risks associated with future movements in interest rates. However, the General Power of Competence does not provide explicit approval for such instruments and is likely to require a test case, through legal proceedings, for such approval to be confirmed. Consequently, the authority does not intend to use derivatives in the forthcoming financial year. Should the legal position change, City Council approval would be required to effect the necessary change in strategy and to develop an appropriate risk management framework.

4. Debt Restructuring

Opportunities for debt restructuring, which involves the premature replacement of existing debt with new loans for different periods and at different rates, will be monitored and appropriate action taken by the CFO under delegated authority, taking into account the following factors:

- The maturity profile
- Ongoing revenue savings
- The impact of premiums and discounts
- The impact on Prudential Indicators.

Existing PWLB variable rate debt and market loans with lender options will be monitored against prevailing interest rates. Where it is considered beneficial to do so, restructuring into fixed-rate products may be undertaken, to reduce the risk of future interest rate movements.

The current margin between borrowing and repayment interest rates for fixed rate PWLB debt means that there would be a large financial penalty for such debt repayment, making such rescheduling unlikely at present.

5. 2012/13 Minimum Revenue Provision (MRP) Statement

Under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (S.I. 2008/414), local authorities have a duty to produce an annual statement on their policy for making a minimum revenue provision (MRP) for the repayment of outstanding debt. For 2012/13 the Council will adopt the following policies in determining the MRP:

- For General Fund capital expenditure financed through borrowing prior to 31 March 2008, the regulatory method (designated by the Regulations as Option 1) will be adopted – MRP will be 4% of the opening capital financing requirement (CFR).
- For General Fund capital expenditure incurred after 1 April 2008, and financed by supported borrowing, the regulatory method will also be adopted (Option 1)
- For all HRA supported borrowing, there is no current requirement to make an annual MRP and this approach will be continued.
- For all capital expenditure incurred after 1 April 2008, and financed by unsupported borrowing (General Fund and HRA), the authority will adopt the asset life method (Option 3). The MRP will be based on the capital expenditure divided by a determined asset life to give equal annual instalments.
- The MRP in respect of Private Finance Initiative (PFI) schemes and finance leases, brought onto the Council's balance sheet under International Financial Reporting Standards (IFRS) will match the annual principal repayment for the associated deferred liability. The impact on the Council's revenue account is therefore neutral.

6. Housing Revenue Account Treasury Management Strategy

<u>Background</u>
In March 2012, the Government will complete its arrangements for the removal of the subsidy system for local authority council housing. Every local authority's HRA will be re-structured such that they no longer need to pay or receive revenue subsidy grant to or from the government. This is being achieved through a redistribution of HRA debt between housing authorities. Most authorities will take on additional debt, with a few having existing HRA debt repaid. The result, from 1 April 2012, is intended to leave every housing authority with a 30-year business plan that enables their HRA to be self-sufficient and capable of maintaining and developing its housing stock, based on a planned increase in rents, over the period.

Nottingham has received notification from CLG that as part of the settlement arrangements, £66.0m of its existing HRA debt will be repaid. This will be achieved through a proportional repayment of all outstanding PWLB debt, on 28 March 2012. This will reduce the HRA Capital Financing Requirement (CFR) to an estimated £284.3m at 31 March 2012.

<u>Proposals from 1 April 2012</u>
From 1 April 2012, separate debt portfolios for the General Fund and the HRA have to be identified. Under the terms of the issued Regulations, there are a number of options

available to determine this division. The Council proposes to follow the ‘2 pool’ option, dividing its existing long-term PWLB and market loans in proportion to the respective opening CFRs at 1 April 2012. All loans will be divided equally, with the exception of the single loan raised in December 2011 to finance the development of Phase 2 of the Nottingham Express Transit (tram) project. This loan is specifically earmarked for and funded from the General Fund and will therefore be excluded from the allocation process.

Any new long-term borrowing from 1 April 2012 is required to be allocated between the two debt portfolios. Future borrowing decisions as to the timing and amount of borrowing, and the type of loan, will take account of the specific needs of the General Fund and the HRA, as appropriate.

Investment income earned by the Council from surplus cash will be allocated between the General Fund and the HRA based on actual cash balances.

7. Investment Strategy 2012/13

<u>Investment Policy</u>
All external investments will be made in accordance with the Council’s adopted investment policy and prevailing legislation and regulation. In line with CLG guidance, the Council’s general policy objective is to invest its surplus funds prudently. The investment priorities are:

- Security of the invested capital
- Liquidity of the invested capital
- And, commensurate with security and liquidity, an optimum return on investments.

During 2011/12 the Investment Strategy has been increasingly cautious. This is as a result of ongoing global financial problems, particularly the economic crisis in Europe (with major potential consequences for banks and other financial institutions). Some eligible investment counterparties have been suspended from the approved list and the maximum period for investment has been reduced, to enable repayment of investments at short notice in the event of further financial difficulties. At 31 December 2011, the average life of the investment portfolio was 23 days, with 80% of all investments subject to same-day repayment.

For 2012/13 it is expected that global economic problems will continue and a similar cautious approach to investment is planned. The main changes to the strategy are:

- The inclusion of a number of alternative approved investment options - Treasury Bills, Government Gilts, Local Authority Bills and Certificates of Deposit
- A consolidation of the minimum credit rating requirement for financial institutions, with the adoption of flexible limits on the period and size of investments.

<u>Specific Investment Criteria</u>
The selection of counterparties eligible for investment in 2012/13 has been based on advice received from our advisors and has taken into account all appropriate credit ratings for those institutions (using the lowest available rating supplied by the three main agencies). In addition to the use of counterparty credit rating information, a range of other factors have been taken into account:

- The inclusion of those UK banks and building societies considered ‘systemically important’ to the UK financial system and therefore likely to be supported by the Government
- Other sovereign support mechanisms

- Country credit ratings
- Credit Default Swap rates (where quoted)
- Share prices (where quoted)
- Economic fundamentals, corporate developments etc
- Press articles and reports
- Market sentiment and momentum
- Any other information pertinent to the security of the investment

All investments are required to be categorised as ‘Specified’ or Non-Specified’, based on criteria in the CLG guidance. To qualify as a Specified Investment, the investment has to be:

- In sterling only
- For a maximum period of 364 days
- With a counterparty of a high credit quality, as determined by the Council
- Not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146.

Any investments not meeting the above requirements are deemed to be Non-Specified investments.

The categories of investment identified for possible use within the above criteria in 2012/13 are:

- Term deposits with the Government’s Debt Management Account Deposit Facility
- Term deposits with other UK local authorities
- Term deposits, call accounts or Certificates of Deposit (tradeable time deposits) with those UK banks and building societies meeting the high credit quality, as determined by the Council and included on the approved counterparty list
- Term deposits or Certificates of Deposit with non-UK banks meeting the high credit quality, as determined by the Council and included on the approved counterparty list
- Money Market Funds - pooled, short maturity, high quality investment vehicles offering instant access, with a AAAm rating and a Constant Net Asset Value
- Supranational Bonds - the debt of international organizations such as the World Bank, the Council of Europe and the European Investment Bank
- Treasury Bills – short-term loan instruments issued by the Government
- Government Gilts – longer-term, tradeable interest-earning bonds
- UK Local Authority Bills – medium-term loan instruments

<u>Approved investment counterparty list</u>
The proposed counterparty list, shown in **Table 4** (page 10), has been drawn up in consultation with the Council’s advisors, after evaluating and applying the above criteria for available institutions. For UK banks, a minimum short and long-term credit rating from all three rating agencies (Fitch, S&P and Moodys) has been applied as follows:

- a short-term rating of F1 (Fitch), A-1 (S&P) or P-1 (Moodys)
- and a long-term rating of A- (Fitch and S&P) or A3 (Moodys)

For non-UK banks, the same individual credit rating criteria apply and there is an additional requirement that the sovereign rating of the relevant country is a minimum of AA+. The interpretation of these various credit ratings is provided as a note to **Table 4.**

Regular monitoring and evaluation of credit ratings and other criteria will be maintained, and appropriate action taken, based on this combined evaluation. Actions may include; reducing the period for new investments below the maximum sum or period (but not above the adopted limits); suspending counterparties from the approved list for further investment; or requesting repayment of deposits where terms allow.

Maximum limits on periods of investment and maximum sums to be deposited have been applied to individual institutions, based on the evaluation of the adopted criteria and strengthened through reference to the size of the investment portfolio, banking group structures and country limits. The details of all limits applied are provided in **Table 4** and the associated notes. In particular:

- Group limits – where more than one bank on the counterparty list is included within a banking group (e.g. Bank of Scotland and Lloyds TSB Bank), the individual limits will also apply to the group as a whole.
- Country limits – other than for UK institutions, a total investment limit will apply to all counterparties in a particular country. No more than 10% of the total investment portfolio, at the time of the deposit, will be placed with any one country.
- Overall country limit – in addition, no more than 25% of the investment portfolio, at the time of the deposit, will be placed with non-UK banks in total.
- Money Market Funds (individual) – an individual limit of £10m per Fund, with a further over-riding limit of 0.50% of the net asset value of the Fund.
- Money Market Funds (total) - an overall total limit of £80m in all MMFs will also be applied.
- UK local authorities – an individual limit of £20m per individual authority and a maximum period of 2 years.
- Supranational Bonds – a maximum sum of £20m and a maximum period of two years.
- Government Gilts (bonds issued by the UK Government) – a maximum sum of £20m and a maximum period of two years.
- UK Government Debt Management Account Deposit Facility (DMADF)* – no limit to the maximum sum or period.
- UK Government Treasury Bills* – no limit to the maximum sum or period.
- Co-Operative Bank – the Council's own bank, while not meeting the minimum criteria for investments, is included on the counterparty list for periods of up to 5 days, with no maximum sum, to accommodate necessary short-term cash management.

* Deposits with the Government, either directly into the DMADF, or in the form of Treasury Bills, are treated as the ultimate 'safe haven' for cash deposits and therefore no limits are applied to the amount or the period of deposit.

TABLE 4: ELIGIBLE COUNTERPARTIES FOR INVESTMENT 2012/13				
INSTRUMENT	**COUNTRY**	**COUNTERPARTY**	**MAX. SUM**	**MAX. PERIOD**
Term deposit / CD / call a/c	U.K.	Bank of Scotland / Lloyds TSB Bank	£20m	364 days
		Barclays Bank	£20m	364 days
		Co-Operative Bank	-	5 days
		HSBC Bank	£20m	364 days
		Nationwide Building Society	£20m	364 days
		Royal Bank of Scotland / Nat West	£20m	364 days
		Santander UK	£20m	364 days
		Standard Chartered	£20m	364 days
	Australia	Australia & NZ Banking Group	£5m	364 days
		Commonwealth Bank of Australia	£5m	364 days
		National Australia Bank Ltd	£5m	364 days
		Westpac Banking Corporation	£5m	364 days
	Canada	Bank of Montreal	£5m	364 days
		Bank of Nova Scotia	£5m	364 days
		Canadian Imp. Bank of Commerce	£5m	364 days
		Royal Bank of Canada	£5m	364 days
		Toronto-Dominion Bank	£5m	364 days
	Finland	Nordea Bank Finland	£5m	364 days
	France	BNP Paribas	£5m	364 days
		Credit Agricole SA	£5m	364 days
		Soc Gen	£5m	364 days
	Germany	Deutsche Bank AG	£5m	364 days
	Netherlands	Bank Nederlandse Gemeenten	£5m	364 days
		ING Bank	£5m	364 days
		Rabobank	£5m	364 days
	Sweden	Svenska Handelsbanken	£5m	364 days
	Switzerland	Credit Suisse	£5m	364 days
	USA	JP Morgan	£5m	364 days
Term deposit	UK	Government Debt Management Account Deposit Facility	-	-
	UK	Other local authorities	£20m	2 years
	UK	Government Treasury Bills	-	-
Money Market Funds	World-wide	AAA-rated funds (Constant Net Asset Value)	£10m / fund	N/A
Supranational Bonds	World-wide	E.g. European Investment Bank/Council of Europe/World Bank	£20m	2 years
Government Gilts	UK	Bonds issued by the UK Government	£20m	2 years

IMPORTANT NOTES TO TABLE 4:

<u>Credit Rating Definitions</u>

Short Term Ratings

Fitch F1
Highest credit quality, indicating the strongest capacity or timely payment of commitments.

Standard & Poor's A-1
Strong capacity to meet its financial commitments.

Moody's P-1
Offers superior credit quality and a very strong capacity for timely payment of short-term deposit obligations.

Long Term Ratings

Fitch A-
High credit quality. 'A' ratings denote expectations of low credit risk. They indicate strong capacity for payment of financial commitments.

Standard & Poor's A-
An obligor rated 'A' has strong capacity to meet its financial commitments.

Moody's A3
Banks rated 'A' are considered upper-medium grade and are subject to low credit risk.

<u>Limiting Factors</u>

Co-operative Bank – *the Council's own bank does not meet the applied criteria. They are included on the counterparty list, with a maximum period of investment of 5 days, for cash flow purposes.*

Groups *- where more than one institution is included within a banking group, the individual limit will apply to the total investment in that group*

Countries *- a maximum of 10% of the investment portfolio to be invested in any one country (excluding the UK) at the time of investment, with a maximum of 25% of the portfolio, at the time of investment, in non-UK banks in total.*

Money Market Funds *– a limit of £80m in all MMFs is to be applied at all times.*

Supranational Bonds and UK Government Gilts *– a maximum sum of £20m*

<u>Investment management</u>

Counterparties - all investments will be limited to institutions based on the adopted criteria. A schedule of eligible counterparties will be maintained. Their credit ratings and other relevant information will be analysed and monitored on a regular basis by the Council and its advisors, to ensure the security of monies invested.

Maximum sums - total investments with individual counterparties, groups, non-UK institutions and Money Market Funds, as detailed in **Table** 4, will apply at all times.

Liquidity - the maximum period for any deposit will be 2 years. For investments with non-UK institutions, a maximum period of 364 days will apply. In order to maintain liquidity and reduce the associated risk, the average period for investments will be monitored and reported on a regular basis.

Return - within the criteria detailed above, an appropriate return will be sought.

Reporting - details of the investment portfolio, use of counterparties and the rates of return will be included in all reports to the Audit Committee and Executive Board. In addition, regular monthly reports will be provided to the Treasury Management Panel (**see Section 8**).

8. Reporting Process

Following approval of the Treasury Management Strategy for 2012/13, the reporting of activity and performance during the year will be, as a minimum:

- A mid-year report to Audit Committee, Executive Board and Council
- An outturn report to Audit Committee, Executive Board and Council

Any required changes to the Strategy, or the associated Prudential Indicators, will be reported to a meeting of the full City Council for consideration and approval, in accordance with CLG guidance. The Treasury Management Panel (comprising the CFO, Director of Strategic Finance, Head of Corporate and Strategic Finance, Treasury Management Officer and other senior finance colleagues) will scrutinise regular reports on treasury management activity throughout the year.

9. Training

The revised Code requires the CFO to ensure that all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive training appropriate to their needs and understand fully their roles and responsibilities.

10. Management of Risk

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

APPENDIX A

PRUDENTIAL INDICATORS 2010/11 – 2014/15					
	2010/11 Actual £m	**2011/12 Est £m**	**2012/13 Est £m**	**2013/14 Est £m**	**2014/15 Est £m**
1. PRUDENCE INDICATORS					
i) Capital Expenditure					
General Fund	131.914	373.367	92.340	27.636	130.585
HRA	56.898	61.100	50.673	48.278	40.226
	188.812	**434.467**	**143.013**	**75.914**	**170.811**
ii) CFR at 31 March					
General Fund	294.163	584.966	605.670	584.484	678.979
HRA	323.273	284.322	283.298	282.274	281.250
PFI-related debt	175.652	224.322	248.423	254.378	709.726
	793.088	**1,093.610**	**1,137.391**	**1,121.136**	**1,669.955**
iii) External Debt at 31 March					
Borrowing	559.145	755.238	794.918	792.708	886.179
Other (PFI debt)	175.652	224.322	248.423	254.378	709.726
Gross debt	**734.797**	**979.560**	**1,043.341**	**1,047.086**	**1,595.905**
Less investments	-153.783	-146.004	-166.004	-186.004	-186.004
Net debt	**581.014**	**833.556**	**877.337**	**861.082**	**1.409.901**
2. AFFORDABILITY INDICATORS					
i) Financing costs ratio					
General Fund	8.70%	9.74%	13.68%	13.60%	15.34%
HRA	12.17%	14.50%	14.63%	14.10%	13.59%
ii) Impact of capital investment decisions					
Council Tax Band D (per annum)	-	-	+£3.67	+£5.54	£0.00
HRA rent (per week)	-	-	+£0.55	£0.00	£0.00
	£m	**£m**	**£m**	**£m**	**£m**
iii) Authorised limit for external debt	-	1,019.560	1,198,341	1,122.086	1,670.905
iv) Operational Boundary for ext. debt	-	999.560	1,158,341	1,082.086	1,630.905
v) HRA limit on indebtedness					
HRA CFR	323.373	284.322	283.298	282.274	281.250
HRA Debt Cap (CLG prescribed)	N/A	N/A	319.784	319.784	319.784
Difference - headroom	**N/A**	**N/A**	**36.486**	**37.510**	**38.534**
3. TREASURY MANAGEMENT INDICATORS					
i) Limit on variable interest rates	16.63%	0-50%	0-50%	0-50%	0-50%
ii) Limit on fixed interest rates	83.37%	50-100%	50-100%	50-100%	50-100%
iii) Fixed Debt maturity structure					
- under 12 months	7.46%	0-20%	0-25%	0-25%	0-25%
- 12 months to 2 years	5.72%	0-25%	0-25%	0-25%	0-25%
- 2 to 5 years	13.56%	0-25%	0-25%	0-25%	0-25%
- 5 to 10 years	12.97%	0-25%	0-25%	0-25%	0-25%
- 10 to 25 years	22.58%	0-50%	0-50%	0-50%	0-50%
- 25 to 40 years	6.38%	0-25%	0-25%	0-25%	0-25%
- 40 years and above	31.33%	0-75%	0-75%	0-75%	0-75%
iv) Sums invested for >364 days					
- in-house limit	£40m	£40m	£60m	£60m	£60m
v) Adoption of the *CIPFA Code of Practice for Treasury Management in the Public Services*	YES	YES	YES	YES	YES
vi) Credit risk	Provided in Annex 1, Section 7				

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 Housing Revenue Account (HRA).

- This estimate takes into account the 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) together with borrowing net of external investments, 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 tax (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 the extension of the Nottingham Express Transit capital scheme.

ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing 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 and the level is very unlikely to be reached.

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 is required 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 Capital Financing requirement represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘The amount of net borrowing which is at a variable rate of interest’* - expressed either as an absolute amount or a percentage. Upper and lower limits for the next three financial years are required.

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

ii) *‘The amount of net borrowing which is at fixed rate of interest’* - expressed either as an absolute amount or a percentage. Upper and lower limits for the next three financial years are required.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates. The lower limit is effectively the counterpart to the upper limit for variable rate borrowing.

iii) *‘Upper and lower limits with respect to the maturity structure of the authority’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 City council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have 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 (section 7).

Risk Management Action Plan (RMAP)

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

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

Impact	
1	Negligible
2	Minor
3	Moderate
4	Major
5	Catastrophic

Low Seriousness	Medium Seriousness	High Seriousness

Summary Business Risk: SRR17 – Failure to protect the Council's investments			
Owned by: DCEX/CD - Resources	Completed by: DCEX/CD – Resources and Treasury Management Panel	Completed: Jan 2012	Next Review: Apr 2012
Prevailing Summary risk Threat Level (LxI)	5.3 (average) (1.7 x 3.1)	Target summary Risk Threat Level	4.08 (1.7 x 2.4)
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 of monies with counterparties	1 x 4 = 4	1 x 3 = 3
2	Inappropriate investment strategy	2 x 3 = 6	2 x 3 = 6
3	Inappropriate borrowing strategy	2 x 3 = 6	2 x 2 = 4
4	Inappropriate management of debt portfolio	1 x 3 = 3	2 x 2 = 4
5	Poor cash management	2 x 3 = 6	2 x 2 = 4
6	Colleague fraud	2 x 3 = 6	2 x 2 = 4
7	Failure to comply with CIPFA Code of Practice and/or respond to changes in relevant legislation	2 x 3 = 6	1 x 3 = 3

Current Management Action / Controls Acting on Risk?
Delete as applicable: Some None

Risk Ref.	Current Management/actions in place	Adequacy of action/control to mitigate risk	Additional management action/ controls	Responsibility for additional action		Critical success factors of additional actions	Key Dates	
				CD	D/ HoS		Additional controls complete	Progress review frequency
1.	• Continued use of external advisors – Arlingclose appointed August 2009 • Use of approved counterparties list based on fuller range of formal credit ratings and wider market intelligence and advice from advisors • Limits set for amounts and time periods with individual institutions • Counterparty limits amended as and when required and future investments suspended if deemed appropriate • Checks introduced arising from the initial review continue and are successful. • TM and investment strategy reviewed and amended as	EFFECTIVE	• Maintain current arrangements • Internal audit plan includes 16 scheduled audit days per annum. Oct 2011 report provided 'high assurance' on operation.	CME	TK/JA	• Weekly check by Deputy S151 officer of current investments continues to take place. • Internal audit report findings are strong	Ongoing Ongoing	Ongoing As received

	required (two approved changes implemented during 2011/12). • Quarterly review of the treasury and investment strategies carried out at Panel meetings. • Continued scan of wider economic environment provided by advisors, with amendments to the existing strategy, as required.		• Extra-Ordinary TM Panel, Oct 2011 with report to Exec. Board, Nov 2011			• TM panel continues to meet regularly to review the overall position. • Implementation of revised TM and investment strategies when appropriate	Ongoing	At least quarterly and as required Subject to regular review as req'd
2.	• Retention of external advisors. • Regular reviews of interest rate forecasts • Knowledge of investment products through attending seminars • Regular review of the investment and TM strategies • Constant scanning of wider economic activity and prompt response • Regular dividends from Heritable Bank have been received (68% or original £15.6m received, as at January 2012).	EFFECTIVE		CME	TK/JA	• TM colleagues continue to work with advisors and colleagues to keep abreast of wider economic conditions and respond accordingly. • TM panel continues to meet regularly to review the overall position and specifics where required. • Training for new councillors on Audit Committee provided, June	Ongoing Ongoing Ongoing	Quarterly At least quarterly and as required Ongoing

	• Priority creditor status for Landsbanki and Glitnir banks confirmed with likelihood of near-100% recovery of principal sum plus interest • Testing of the system took place and enabled further strengthening actions to be implemented. • CFO takes action under delegation (and in consultation with portfolio holder) to respond quickly to emerging issues. • Linked in with LGA work on recovery of funds in Icelandic banks. • Ongoing regular review (at least quarterly) with formal changes implemented where required.					2011. Further training scheduled for 2012. • Return of Landsbanki and Glitnir funds expected in accordance with the agreed timetable	Ongoing	Ongoing
3.	• Identification and monitoring of annual borrowing requirement • Monitoring of borrowing rates • Use of alternative products	EFFECTIVE – subject to Capital Programme review	• Capital programme review completed • New capital strategy to be considered	CME	TK/JA JA	• Sufficient resources identified to cover capital expenditure and cash flows • Continued regular review	Ongoing Ongoing	Quarterly Quarterly

	• Regular review of arrangements and possibilities • Fundamental review of capital programme has taken place and will inform a new capital strategy.		by Executive Board in 2012.			by TM panel. • Approval of new Capital Strategy by Exec Board in 2012.	2012	
4	• Retention of strong external advisors – Arlingclose • Regular monitoring of debt maturity profile • Opportunities for rescheduling identified and implemented	EFFECTIVE	• Maintain existing arrange-ments • Continued strong performance of external advisors	CME	TK/JA	• Continued regular review by TM panel	At TM panel meetings	Quarterly
5	• Use of cash forecasting models, with regular monitoring and updates undertaken • Track record is sound • Continuous adaptation of model in the light of prevailing and forecast circumstances	EFFECTIVE	• Maintain existing arrange-ments	CME	TK/JA	• Regular review by TM panel	At TM panel meetings	At least Quarterly
6	• Delegation and approved process in place • Separation of duties between treasury management dealing and accounting • Annual internal audit	EFFECTIVE	• A periodic system test to take place • Maintain existing arrangements – to be changed if	CME	TK/JA	• Satisfactory outcome of internal audit review • Continuing satisfactory outcome of checks by	Internal audit report TBD. Ongoing TM Panel meetings	Quarterly Ongoing

	review • Use of professional indemnity insurance • Governance checks in place – e.g.: review by deputy s151 officer and TM Panel in place and satisfactory outcomes to date		testing identifies any issues			deputy s151 officer and system tests. • TM Panel review is robust		Ongoing
7	• 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	EFFECTIVE	• Existing arrange-ments to continue	CME	TK/JA	• 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 TBD At least quarterly

APPENDIX C

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.
Capital Receipts	Money obtained on the sale of a capital asset.
Certificates of Deposit	Tradeable debt instrument issued by financial institution with fixed interest rate and maturity.
CNAV	Constant Net Asset Value - a term used in relation to the value of 1 share in a fund. The value of a share is always £1.
Credit Default Swaps	A financial instrument for swapping the risk of debt default; the buyer effectively pays a 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.
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.
International 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 Authority 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.
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.

TERM	DEFINITION
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.
SORP	Statement of Recommended Practice for Accounting
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.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
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 2

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 Treasury Manager, 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 and 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 Authority's investments followed by the yield earned on investments remain important but are secondary considerations.