**APPENDIX 1**

## EXECUTIVE BOARD - 19 FEBRUARY 2013

| | |
|---|---|
| **Subject:** | **TREASURY MANAGEMENT 2013/14 STRATEGY** |
| **Corporate Director(s) / Directors:** | Carole Mills<br>Deputy Chief Executive & Corporate Director for Resources |
| **Portfolio Holder(s):** | Councillor Graham Chapman, Portfolio Holder for Resources, Economic Development and Reputation |
| **Report author and contact details:** | Jeff Abbott, Head of Corporate and Strategic Finance<br>Tel: 0115 8763648<br>E-mail: jeff.abbott@nottinghamcity.gov.uk |

**Key Decision** ☐ **Yes** ε **No**

| | | |
|---|---|---|
| **Reasons:** Expenditure ☐ **Income** ☐Savings of £1,000,000 or more taking account of the overall impact of the decision ☐ | | **Revenue** ☐ **Capital** ☐ |
| Significant in terms of its effects on communities living or working in an area consisting of two or more wards in the City | | ☐ **Yes** **No** ε |
| **Relevant Council Plan Strategic Priority:** | | **Wards affected:** All |
| World Class Nottingham | ☒ | |
| Work in Nottingham | ☒ | |
| Safer Nottingham | ☒ | |
| Neighbourhood Nottingham | ☒ | **Date of consultation with Portfolio Holder(s):** Throughout January/ February 2013 |
| Family Nottingham | ☒ | |
| Healthy Nottingham | ☒ | |
| Leading Nottingham | ☒ | |

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

This report sets out the Treasury Management and Investment strategies for 2013/14 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 4 March 2013:<br>▪ The overall Treasury Management Strategy for 2013/14 **(Annex 1)**<br>▪ The strategy for debt repayment in 2013/14 **(section 5** of **Annex 1)**<br>▪ The Housing Revenue Account Treasury Management Strategy for 2013/14 **(section 6** of **Annex 1)**<br>▪ The Investment Strategy for 2013/14 **(section 7** of **Annex 1)**<br>▪ The prudential indicators and limits from 2012/13 to 2015/16 **(Appendix A** within **Annex 1)** |

## 1 BACKGROUND

1.1 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, 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 were considered by Audit Committee on 15 February 2013, as part of the scrutiny process required by the CIPFA Code. Any comments or recommendations following that consideration will be reported verbally to this Board.

## 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) for the repayment of debt.

## 3 TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2013/14

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 Treasury Management strategy for 2013/14 are:

- The adoption of a separate policy for treasury management in respect of the Housing Revenue Account (HRA), following the abolition of the housing subsidy system and the creation of a separate HRA debt portfolio
- A change to the policy for Minimum Revenue Provision, allowing capital expenditure financed from unsupported (prudential) borrowing to continue to be based on the life of the asset but to be met through *either* equal annual repayments of principal *or* on an annuity repayment basis
- The expansion of the list of approved investment counterparties, to provide further diversification within the portfolio
- A lengthening of the *maximum* period for term deposits to 2 years for all investment counterparties
- A lengthening of the *maximum* period for those investments with a secondary market (i.e. capable of resale prior to maturity) to 5 years

## 4 PRUDENTIAL INDICATORS (ANNEX 1, APPENDIX A)

4.1 The Prudential Code, issued by CIPFA and adopted formally by the Council, 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 2015/16 that are expected to be generated by the proposed strategies, along with explanatory notes.

## 5 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

5.1 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.

## 6 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

6.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012, separate arrangements have been established for the Housing Revenue Account. The remaining costs are included within the treasury management section of the General Fund budget, although there remain a number of recharges between the General Fund and the HRA.

**Table 1** overleaf summarises the forecast outturn for the current financial year and provides the estimate for 2013/14:

| TABLE 1: TREASURY MANAGEMENT - REVENUE BUDGET POSITION | | | |
|---|---|---|---|
| **DESCRIPTION** | **BUDGET 2012/13 £m** | **FORECAST OUTTURN 2012/13 £m** | **BUDGET 2013/14 £m** |
| External interest | 30.277 | 29.152 | 30.929 |
| Less: HRA interest | (12.781) | (12.384) | (11.605) |
| Debt repayment provision | 31.426 | 25.923 | 32.583 |
| **General Fund expenditure** | **48.922** | **42.691** | **51.907** |
| Investment interest | ( 1.501) | ( 1.209) | (1.182) |
| Prudential borrowing recharge | ( 0.562) | ( 0.566) | (0.516) |
| **NET GENERAL FUND POSITION** | **46.859** | **40.916** | **50.209** |

6.2 The forecast outturn for 2012/13 reflects reductions in the provision for debt repayment as a result of capital programme slippage and also interest savings as a result of the repayment of Council debt by HM Treasury as part of the Government's Council Housing Finance Reform programme. A proportion of these reductions have been offset by transfers to the NET Phase 2 capital project.

6.3 The 2013/14 estimate includes the revenue cost of the advance borrowing of £100m for the NET Phase 2 scheme, and further related land and property acquisitions. These costs are being met by a transfer of resources from the NET Phase 2 project (financed from external PFI grant and the Workplace Parking Levy income streams).

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

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 4.57 (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.**

## 8 EQUALITY IMPACT ASSESSMENT (EIA)

Has the equality impact been assessed?

(a) not needed (report does not contain proposals for new or changing policies, services or functions, financial decisions or decisions about implementation of policies development outside the Council) ε

(b) No ☐

(c) Yes – Equality Impact Assessment attached ☐

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

PWLB records, working papers

## 10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

None

# NOTTINGHAM CITY COUNCIL

# <u>TREASURY MANAGEMENT STRATEGY 2013/14</u>

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# TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2013/14

## 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, which represents borrowing raised to finance capital expenditure not met from other sources over the years, is a key element of the Treasury Management Strategy. At 31 March 2013 the total value of the portfolio will be circa £788m (excluding Private Finance Initiative notional 'debt'), borrowed at an average interest rate of 3.75%. This figure includes the sum of £100m raised from the Public Works Loan Board (PWLB) in 2012/13 to finance a required capital contribution for the Nottingham Express Transit (NET) Ph. 2 scheme. This borrowing has been raised in advance of need, to take advantage of low interest rates and will not need to be expended until 2014/15.

In 2013/14 total debt is forecast to increase to circa £802m (again, excluding PFI-related debt), with the average interest rate forecasted to fall to 3.60%.

The Investment Portfolio
An investment portfolio is also maintained to ensure that the Council's surplus cash (working capital, plus cash-backed reserves and provisions and any borrowing raised in advance of need) earns interest whilst being held. The average value of investments during 2012/13 will be circa £175m (excluding monies held by the Council as the 'accountable body' for other organisations and the remaining deposits in Icelandic banks). During 2013/14 an average balance of circa £200m is forecast.

The average return on investments during 2012/13 is expected to be circa 0.75%. Short-term interest rates are forecast to remain at their current low levels during 2013/14, but, with a planned longer maturity profile for the investment portfolio (see **Section 7)**, the average return on investments is forecast to rise to an estimated 0.80% for the forthcoming 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 globally. 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 be unchanged throughout 2013/14 and beyond. Longer-term rates are currently also very low as a result of the Government's quantitative easing programme and their Funding for Lending scheme and long-term rates are expected to remain within a narrow band in the medium-term.

**Table 1** shows interest rates at 31 December 2012, together with projections to the end of March 2015, based on latest estimates provided by the Council's advisors. Short-term money rate forecasts are used to inform decisions on the investment of surplus monies. Interest rates for long-term borrowing are directly linked to the Gilt rates for the appropriate period.

**TABLE 1: PROJECTED MOVEMENTS IN INTEREST RATES 2012 - 2015**

| YEAR | END PERIOD | BASE RATE | SHORT TERM MONEY RATES | | | LONG TERM GILT RATES | | |
|---|---|---|---|---|---|---|---|---|
| | | | 3 MONTHS | 6 MONTHS | 12 MONTHS | 5 YEARS | 20 YEARS | 50 YEARS |
| **2012** | Dec | 0.50 | 0.44 | 0.54 | 0.80 | 0.89 | 2.82 | 3.31 |
| **2013** | Mar | 0.50 | 0.40 | 0.55 | 0.85 | 0.95 | 2.90 | 3.35 |
| | Jun | 0.50 | 0.40 | 0.55 | 0.90 | 0.95 | 2.90 | 3.35 |
| | Sep | 0.50 | 0.40 | 0.60 | 0.95 | 0.95 | 2.90 | 3.35 |
| | Dec | 0.50 | 0.45 | 0.60 | 0.95 | 0.95 | 2.90 | 3.40 |
| **2014** | Mar | 0.50 | 0.45 | 0.60 | 1.00 | 1.00 | 3.00 | 3.40 |
| | Jun | 0.50 | 0.50 | 0.65 | 1.00 | 1.00 | 3.00 | 3.40 |
| | Sep | 0.50 | 0.50 | 0.65 | 1.00 | 1.00 | 3.00 | 3.50 |
| | Dec | 0.50 | 0.50 | 0.65 | 1.00 | 1.00 | 3.00 | 3.50 |
| **2015** | Mar | 0.50 | 0.55 | 0.65 | 1.00 | 1.10 | 3.10 | 3.50 |

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 remains between preventing a return to recession (by keeping a low base interest rate for longer) and a desire to curb inflationary pressures (by increasing base rates faster). With the need to stimulate UK growth assuming more importance than keeping inflation rates low at present, 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 (PIs) and associated commentary. **Table 2** lists which of the PIs 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, |
| 2 | 3iv, 3v, 3vi |
| 3 | 3iv, 3v |
| 4 | 3v |
| 5 | 3v |

Within these principles, specific strategies will be adopted in 2013/14 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 2013/14, reflecting the current approved capital programme:

| TABLE 3: TOTAL BORROWING REQUIREMENT 2013/14 | |
|---|---|
| | **£m** |
| Debt maturing during the year | 36.1 |
| Unsupported borrowing 2013/14: | |
| HRA | - |
| General Fund | 68.4 |
| Less: revenue provision for repayment: | |
| HRA | ( 1.0) |
| General Fund | (31.1) |
| **TOTAL** | **72.4** |

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.

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.

In November 2012, interest rates for loans from the PWLB were reduced by 0.20% for local authorities (the new 'certainty rate'), in return for additional information on future borrowing intentions. This had the effect of ensuring that this source of funding remains the cheapest option for longer-term borrowing. However, it is expected that the alternative use of temporary short-term borrowing will be continued whilst short-term interest rates remain low and the forecast for longer-term rates remains relatively benign. In addition, with the Council's average return on investments being <1%, and the cost of long-term borrowing being >3%, surplus cash will continue to be used to replace long-term borrowing on a temporary basis.

The introduction of the Localism Act from 1 April 2013 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 requires 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 debt 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 repayment 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 rescheduling of this debt unlikely in the short-term.

## 5. 2013/14 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 2013/14 the Council will adopt the following policies in determining the MRP:

- For all 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 existing 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 (both 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, *either* through an annuity loan *or* via equal annual repayments of principal.
- The MRP in respect of Private Finance Initiative 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

Background

In March 2012, the Government completed its arrangements for the removal of the subsidy system for local authority council housing. As part of the settlement arrangements, Nottingham City Council had £66m of its existing HRA debt repaid by the Government. In return, the authority receives no further housing subsidy, from 1 April 2012, but will be responsible for a self-sufficient HRA, with a 30-year business plan enabling the maintenance and development of its housing stock, financed from rent income.

As a consequence of this debt repayment, the HRA Capital Financing Requirement (its overall need to borrow to finance its capital assets) was reduced to £284.3m at 1 April 2012. A separate debt portfolio was created for the HRA at that date, with an appropriate proportion of the Council's existing PWLB and market loan debt being allocated to this new portfolio.

Proposals for 2013/14

From 1 April 2012, a separate treasury management policy was required for the HRA. The following policies are proposed to continue in 2013/14:

- The HRA will continue to meet the annual interest costs of the external debt portfolio created at 1 April 2012
- New external borrowing raised by the Council will be allocated between the General Fund and the HRA as required and will take account of the specific needs of those separate organisations in terms of loan type, amount, timing and period
- The HRA will continue its policy of making no Minimum Revenue Provision in its revenue account for debt repayment, other than for specific existing and future prudential borrowing (see **section 5**)
- Any temporary internal borrowing from the General Fund by the HRA, arising as a result of existing debt maturing and not being replaced, will be re-charged to the HRA revenue account at an interest rate equivalent to the Council's average cost for temporary external debt
- Net cash surpluses held by the HRA (working capital plus reserves etc) will be calculated on a daily basis with interest credited to the HRA revenue account at an interest rate equivalent to the Council's average return on external investments.

## 7. Investment Strategy 2013/14

Investment Policy

All external investments will be made in accordance with the Council's adopted investment policy and prevailing legislation and regulation. In line with DCLG 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.

Introduction

During 2012/13 the Council's return on its investments has been increasingly impacted by the Government's aim of injecting liquidity into the UK banking system, through its policies of quantitative easing and the Funding for Lending scheme. Returns on fixed-rate deposits from UK banks have fallen steadily through the year. The benchmark 3-month London Inter Bank Offer Rate (LIBOR) has fallen from 1.06% in April 2012 to 0.52% by December 2012.

During the same period, the outlook has generally improved for both the global economy as a whole and for financial institutions on the approved investment counterparty list, with credit ratings being affirmed by rating agencies, and Credit Default Swap rates (a 'barometer' of the likelihood of an institution failing and defaulting on its debts) improving steadily.

For 2013/14, consideration has therefore been given to the following general changes to the investment strategy:

- An extension of the maximum maturity period for fixed-rate deposits and negotiable instruments
- The inclusion of a number of alternate investment products, to provide access to better interest rate returns and enable diversification of the investment portfolio, whilst enabling cash surpluses to remain securely invested with appropriate financial institutions.

Specific Investment Criteria

The selection of counterparties eligible for investment in 2013/14 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

Investment counterparties

All investments are required to be categorised as 'Specified' or Non-Specified', based upon criteria within the DCLG 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.

By definition, any investments not meeting the above requirements are deemed to be Non-Specified investments. The Council is required to have particular regard to the security of Non-Specified investments and to impose a ceiling on the proportion of its investment portfolio that can be held within this category.

The proposed investment instruments identified for use in 2013/14 have been selected with the following particular requirements for investment:

a) Specified investments (high credit quality, < 365 days duration)

- Call accounts, term deposits and Certificates of Deposit (CDs) – the retention of the existing requirement for a minimum individual credit rating of A- (or equivalent) from all 3 rating agencies
- Overseas institutions - an additional requirement for a minimum sovereign credit rating of AA+ (or equivalent) from all 3 agencies for all non-UK institutions
- Local authority deposits
- Supranational bonds (the debt of international organisations such as the European Investment Bank, the World Bank etc.)
- UK Government Debt Management Account Deposit facility (DMADF) deposits, Treasury Bills and UK Gilts

- Money Market Funds (instant access) - Variable Net Asset Value (VNAV) or Constant Net Asset Value (CNAV) Funds, with a minimum AAAm credit rating
- Other Pooled Funds - VNAV notice Funds, with 1-5 day access and a minimum AAAf credit rating.

b) Non-specified investments (any investment of lower credit quality or > 364 days)

- Term deposits > 364 days - an increase in the maximum maturity limit to 2 years
- Negotiable instruments > 364 days (CDs Supranational Bonds, Gilts etc, with a secondary resale market) – an increase in the maximum maturity limit to 5 years
- Housing Associations - registered providers with a strong regulatory framework, low debt: revenue ratios, a high proportion of income from Government subsidies and a good likelihood of Government support, although not all necessarily have a formal credit rating.

Approved investment counterparty list

A proposed approved counterparty list, based on the above specifications, has been drawn up in liaison with the Council's external advisors, and details are provided in **Table 4** overleaf.

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. 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
- 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
- Country limits – other than for UK institutions, a total investment limit will apply to all counterparties in a particular country. No more than 15% 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
- Period limits (term deposits) – the maximum approved duration for term deposits and investments without a secondary market will be 2 years
- Period limits (negotiable instruments) – the maximum approved duration for negotiable instruments such as CDs, Government Gilts and Supranational Bonds which have a secondary market (i.e. can be sold before maturity) will be 5 years
- UK local authorities – an individual limit of £25m per authority and a maximum period of 2 years
- UK Government DMADF* – no limit to the maximum sum or period
- UK Government Treasury Bills* - no limit to the maximum sum or period

- Government Gilts (bonds issued by the UK Government) – a maximum sum of £25m and a maximum period of five years
- CNAV instant access MMFs (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
- VNAV instant access MMFs (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
- Short-term Pooled Funds (individual) - an individual limit of £5m per Fund, with a further over-riding limit of 0.50% of the net asset value of the Fund
- All MMF and other Pooled Funds (total) - an overall total limit of £100m in all pooled funds will also be applied.
- Supranational Bonds – an individual limit of £25m and a maximum period of five years
- Housing Associations (Registered Providers) – an individual limit of £10m and a maximum period of two years.
- Non-Specified Investments – the maximum proportion to be held in non-specified investments will be 25% of the portfolio at the time of investment.

* Deposits with the U.K. 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 2013/14 | | | | | |
|---|---|---|---|---|---|
| **INV. TYPE** | **COUNTRY** | **COUNTERPARTY** | **MAX SUM £m** | **MAX PERIOD TERM DEPOSITS** | **MAX PERIOD - NEGOTIABLE INSTRUMENTS** |
| Term deposit, call a/c, CD | U.K. | Bank of Scotland / Lloyds TSB | 25 | 2 years | 5 years |
| | | Barclays Bank | 25 | 2 years | 5 years |
| | | Co-Operative Bank | - | 5 days | - |
| | | HSBC Bank | 25 | 2 years | 5 years |
| | | Nationwide Building Society | 25 | 2 years | 5 years |
| | | RBS / Nat West | 25 | 2 years | 5 years |
| | | Santander UK | 25 | 2 years | 5 years |
| | | Standard Chartered | 25 | 2 years | 5 years |
| | Australia | Australia & NZ Banking Group | 10 | 2 years | 5 years |
| | | Commonwealth Bank of Aus | 10 | 2 years | 5 years |
| | | National Australia Bank Ltd | 10 | 2 years | 5 years |
| | | Westpac Banking Corporation | 10 | 2 years | 5 years |
| | Canada | Bank of Montreal | 10 | 2 years | 5 years |
| | | Bank of Nova Scotia | 10 | 2 years | 5 years |
| | | Canadian Imp. Bank of Comm. | 10 | 2 years | 5 years |
| | | Royal Bank of Canada | 10 | 2 years | 5 years |
| | | Toronto-Dominion Bank | 10 | 2 years | 5 years |
| | Finland | Nordea Bank Finland | 10 | 2 years | 5 years |
| | | Pohjola | 10 | 2 years | 5 years |
| | France | BNP Paribas | 10 | 2 years | 5 years |
| | | Credit Agricole SA | 10 | 2 years | 5 years |
| | | Credit Agricole CIB | 10 | 2 years | 5 years |
| | | Société Générale | 10 | 2 years | 5 years |
| | Germany | Deutsche Bank AG | 10 | 2 years | 5 years |
| | Netherlands | Bank Nederlandse Gemeenten | 10 | 2 years | 5 years |
| | | ING Bank | 10 | 2 years | 5 years |
| | | Rabobank | 10 | 2 years | 5 years |
| | Singapore | DBS Bank Ltd | 10 | 2 years | 5 years |
| | | Oversea-Chinese Banking Corporation | 10 | 2 years | 5 years |
| | | United Overseas Bank | 10 | 2 years | 5 years |
| | Sweden | Svenska Handelsbanken | 10 | 2 years | 5 years |
| | Switzerland | Credit Suisse | 10 | 2 years | 5 years |
| | U.S. | JP Morgan | 10 | 2 years | 5 years |
| Term deposit | U.K. | Local authorities | N/A | 2 years | N/A |
| | | Govt. Debt Mgt Deposit Facility | N/A | - | - |
| | | Government Treasury Bills | N/A | - | - |
| Govt. Gilts | U.K. | Bonds issued by the UK Government | 25 | N/A | 5 years |
| MMFs | World-wide | Instant access AAAm-rated funds (CNAV or VNAV) | 10 | N/A | N/A |
| Pooled Funds | World-wide | VNAV AAAf-rated notice funds (1-5 days) | 5 | N/A | N/A |
| Supra-national Bonds | World-wide | E.g. European Investment Bank/Council of Europe/World Bank | 25 | N/A | 5 years |
| Other | U.K. | Housing Associations | 10 | 2 years | N/A |

**IMPORTANT NOTES TO TABLE 4:**

***Credit Rating Definitions***

***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.*

***Limiting Factors***

***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 15% 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 and other Pooled Funds*** *– a limit of £100m in all CNAV and VNAV Funds is to be applied at all times.*

**Non-specified investments** – *a maximum of 25% of the portfolio, at the time of investment*

**Investment management**

**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, and non-UK institutions, as detailed in **Table** 4, will apply at all times.

**Liquidity -** the maximum period will be 2 years for term deposits and 5 years for investments with a secondary market. 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 2013/14, the reporting of activity and performance during the year will be, as a minimum:

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

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 2012/13 – 2015/16 | | | | | |
|---|---|---|---|---|---|
| | **2011/12 Actual £m** | **2012/13 Est £m** | **2013/14 Est £m** | **2014/15 Est £m** | **2015/16 Est £m** |
| **1. PRUDENCE INDICATORS** | | | | | |
| **i) Capital Expenditure** | | | | | |
| General Fund | 347.592 | 93.859 | 114.881 | 147.259 | 20.838 |
| HRA | 57.943 | 53.217 | 68.251 | 56.821 | 47.569 |
| | **405.535** | **147.076** | **183.132** | **204.080** | **68.407** |
| **ii) CFR at 31 March** | | | | | |
| General Fund | 549.326 | 562.118 | 599.294 | 696.586 | 670.949 |
| HRA | 284.308 | 283.303 | 282.298 | 281.293 | 284.263 |
| PFI-related debt | 59.356 | 65.825 | 93.049 | 182.356 | 178.091 |
| | **892.990** | **911.246** | **974.641** | **1,160.235** | **1,133.303** |
| **iii) External Debt at 31 March** | | | | | |
| Borrowing | 754.956 | 788.106 | 801.848 | 901.135 | 880.468 |
| Other (PFI debt) | 59.356 | 65.825 | 93.049 | 182.356 | 178.091 |
| **Gross debt** | **814.492** | **853.931** | **894.897** | **1,080.491** | **1,053.559** |
| **2. AFFORDABILITY INDICATORS** | | | | | |
| **i) Ratio of financing costs to net revenue stream** | | | | | |
| General Fund | 9.81% | 11.29% | 14.21% | 16.87% | 15.71% |
| HRA | 12.77% | 12.61% | 11.64% | 11.03% | 10.66% |
| **ii) Impact of capital investment decisions** | | | | | |
| Council Tax Band D (per annum) | - | - | - | - | - |
| HRA rent (per week) | - | - | - | - | - |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **iii) Authorised limit for external debt** | - | 933.931 | 954.897 | 1,140.491 | 1,113.559 |
| **iv) Operational Boundary for ext. debt** | - | 893.931 | 914.897 | 1,100.491 | 1,073.559 |
| **v) HRA limit on indebtedness** | | | | | |
| HRA CFR | N/A | 283.303 | 282.298 | 281.293 | 284.263 |
| HRA Debt Cap (CLG prescribed) | N/A | 319.784 | 319.784 | 319.784 | 319.784 |
| Difference - headroom | **N/A** | **36.481** | **37.486** | **38.491** | **35.521** |
| **3. TREASURY MANAGEMENT INDICATORS** | | | | | |
| **i) Limit on variable interest rates- debt** | 9.99% | 0-50% | 0-50% | 0-50% | 0-50% |
| **ii) Limit on fixed interest rates- debt** | 90.01% | 50-100% | 50-100% | 50-100% | 50-100% |
| **iii) Fixed Debt maturity structure** | | | | | |
| - under 12 months | 15.65% | 0-25% | 0-25% | 0-25% | 0-25% |
| - 12 months to 2 years | 4.30% | 0-25% | 0-25% | 0-25% | 0-25% |
| - 2 to 5 years | 4.30% | 0-25% | 0-25% | 0-25% | 0-25% |
| - 5 to 10 years | 16.17% | 0-25% | 0-25% | 0-25% | 0-25% |
| - 10 to 25 years | 30.40% | 0-50% | 0-50% | 0-50% | 0-50% |
| - 25 to 40 years | 11.10% | 0-25% | 0-25% | 0-25% | 0-25% |
| - 40 years and above | 18.08% | 0-75% | 0-75% | 0-75% | 0-75% |
| **iv) Sums invested for >364 days** | | | | | |
| - in-house limit | £28.2m | £60m | £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 HRA.

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

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

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

iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) 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 NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.

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.

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.

- 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) *'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: Oct 2012 | Next Review: Jan 2013 |
| Prevailing Summary risk Threat Level (LxI) | 4.57 (average) (1.57 x 3.00 ) | Target summary Risk Threat Level | 4.00 (1.71 x 2.43) |
| Summary risk mitigation effectiveness (Effective, yet to secure improvement, may not be enough) | | Effective | |

**Risks under risk management:**

| Risk Ref: | Description | Current Risk Rating Score (LxI) | Target Risk Rating Score (LxI) |
|---|---|---|---|
| 1 | Inappropriate investment 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 | 1 x 3 = 3 | 2 x 2 = 4 |
| 4 | Inappropriate management of debt portfolio | 1 x 3 = 3 | 2 x 2 = 4 |
| 5 | Poor cash management | 2 x 2 = 4 | 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<br>• Use of approved counterparties list based on fuller range of formal credit ratings and wider market intelligence and advice from advisors<br>• Limits set for amounts and time periods with individual institutions<br>• Counterparty limits amended as and when required and future investments suspended if deemed appropriate<br>• Checks introduced arising from the initial review continue and are successful.<br>• TM and investment strategy reviewed and amended as | EFFECTIVE | • Maintain current arrangements<br><br>• Internal audit plan includes 16 scheduled audit days per annum. Dec 2012 report provided 'high assurance' on operation. | CM | TK/JA | • Weekly check by Deputy S151 officer of current investments continues to take place.<br><br>• Internal audit report findings are strong | Ongoing<br><br>Ongoing | Ongoing<br><br>As received |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | required (further approved changes implemented during 2012/13).<br>• Quarterly review of the treasury and investment strategies carried out at Panel meetings.<br>• Continued scan of wider economic environment provided by advisors, with amendments to the existing strategy, as required. | | • Report to Exec. Board, Sep 2012 | | | • TM panel continues to meet regularly to review the overall position.<br>• Implementation of revised TM and investment strategies when appropriate | Ongoing | At least quarterly and as required<br><br>Subject to regular review as req'd |
| 2. | • Retention of external advisors.<br>• Regular reviews of interest rate forecasts<br>• Knowledge of investment products through attending seminars<br>• Regular review of the investment and TM strategies<br>• Constant scanning of wider economic activity and prompt response<br>• Regular dividends from Heritable Bank have been received (77% or original £15.6m received, as at January 2013). | EFFECTIVE | | CM | TK/JA | • TM colleagues continue to work with advisors and colleagues to keep abreast of wider economic conditions and respond accordingly.<br>• TM panel continues to meet regularly to review the overall position and specifics where required.<br>• Training for new councillors on Audit Committee provided. | Ongoing<br><br>Ongoing<br><br>Ongoing | Quarterly<br><br>At least quarterly and as required<br><br>Ongoing |

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

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | review<br>• Use of professional indemnity insurance<br>• 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.<br>• TM Panel review is robust | | Ongoing |
| 7 | • Formal adoption of Code in place since inception.<br>• Updates are reflected in annual review of TM and Investment Strategies<br>• Review of requirements to take place as early as possible<br>• Training on accounting issues | EFFECTIVE | • Existing arrange-ments to continue | CM | TK/JA | • Continued application of current arrangements<br>• Revisions are promptly and accurately reflected<br>• Satisfactory internal audit review outcome<br>• Robust appraisal by TM panel | Ongoing<br>Annual TM and investment strategy<br>Audit report<br>TM Panel meetings | Ongoing<br>Annual<br>TBD<br>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. |
| Certainty Rate | 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 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. |
| 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 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. |
| 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 - 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, 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. |
| VNAV | See Money Market Funds |