TREASURY MANAGEMENT POLICY STATEMENT INCLUDING:

- **TREASURY MANAGEMENT STRATEGY**
- **ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT**
- **ANNUAL INVESTMENT STRATEGY 2017/18**

Portsmouth City Council
Director of Finance and Information Services (Section 151 Officer)

TREASURY MANAGEMENT POLICY STATEMENT 2016/17

CONTENTS

Section		Page No.
1	Background	3
2	Borrowing Limits and Prudential Code	4
3	Treasury Management Policy Statement	5
4	Treasury Management Strategy for 2017/18	6
5	Approved Methods of Raising Capital Finance	15
6	Approved Sources of Borrowing	16
7	Apportionment of Borrowing Costs to the Housing Revenue Account (HRA)	18
8	Annual Minimum Revenue Provision for Debt Repayment Statement	18
9	Annual Investment Strategy for 2017/18	20
10	Investment Consultants	21
11	Specified Investments	21
12	Non-Specified Investments	26
13	Maximum Level of Investment in Individual Organisations	31
14	Liquidity of Investments	33
15	Investment of Money Borrowed in Advance of Need	33
16	Training of Investment Staff	34
17	Delegated Powers	34
18	Treasury Systems and Documentation	34
19	Review and Reporting Arrangements	35

Appendix A Prudential Indicators
Appendix B Background Information and Risks to Interest Rate Forecasts
Appendix C Debt Maturity Pattern
Appendix D Treasury Management Indicators
Appendix E Maturing Loans and MRP for Supported Borrowing
Appendix F Definition of Long Term Credit Ratings
Appendix G Institutions meeting investment criteria

1 BACKGROUND

1.1 This Council defines its Treasury Management activities as "the management of the organisation'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."

1.2 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.

1.3 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 comprehensive performance management techniques, within the context of effective risk management.

1.4 The City Council's treasury management activities are governed by various codes of practice and guidance that the Council must have regard to under the Local Government Act 2003. The main codes and guidance that the Council must have regard to are:

- Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) which sets out the key principles and practices to be followed.

- The Prudential Code for Capital Finance in Local Authorities published by CIPFA which governs borrowing by local authorities.

- The Guidance on Local Government Investments published by the Department for Communities and Local Government which governs local authorities investment activities and stipulates that investment priorities should be security (protecting the capital sum from loss) and liquidity (keeping money readily available for expenditure when needed), rather than yield.

2 BORROWING LIMITS AND THE PRUDENTIAL CODE

2.1 The Prudential Code requires the City Council to approve an authorised limit and an operational boundary for external debt together with other prudential indicators designed to ensure that the capital investment plans are affordable, prudent and sustainable. These were approved by the City Council on 14th February 2017.

i) Authorised Limit

The authorised limit for external debt is the maximum amount of debt which the authority may legally have outstanding at any time. The Authorised Limit includes headroom to enable the Council to take advantage of unexpected movements in interest rates and to accommodate any short-term debt or unusual cash movements that could arise during the year

	£m
Borrowing	530
Other Long Term Credit Liabilities	77
	607

ii) Operational Boundary

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit, but acts as a warning mechanism to prevent the authorised limit (above) being breached.

	£m
Borrowing	512
Other Long Term Credit Liabilities	77
	589

iii) Other Prudential Indicators contained in the Prudential Code

The following indicators are also included in the Prudential Code:

- Capital expenditure
- Ratio of financing costs to net revenue stream
- Capital financing requirement
- Housing Revenue Account (HRA) limit on indebtedness
- Incremental effect of capital investment decisions on council tax at band D
- Incremental effect of capital investment decisions on housing rents

These are contained in Appendix A.

The Prudential Code also requires local authorities to adopt the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. These are guides to good practice that the City Council has adopted and followed for several years.

3 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The prime objective of the Treasury Management function is the effective management and control of risk associated with the activities described in paragraph 1.1. The key risks associated with the Council's treasury management operations are:

- Credit risk – ie. that the local authority is not repaid, with due interest in full, on the day repayment is due.

- Liquidity risk – ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs.

- Interest rate risk – ie. that the authority fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the authority has budgeted.

- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

- Maturity (or refinancing risk) – This relates to the authority's borrowing or capital financing activities, and is the risk that the authority is unable to repay or replace its maturing funding arrangements on appropriate terms.

- Procedures (or systems) risk – ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption.

3.2 It is recommended that the Director of Finance and Information Services (Section 151 Officer) and officers nominated by him be given delegated authority to **(recommendation 3.1d):**

(i) invest surplus funds in accordance with the approved Annual Investment Strategy;

(ii) to revise the total amount that can be invested with any organisation at any time in consultation with the Leader of the Council;

(iii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £607m approved by the City Council on 14 February 2017;

(iv) to reschedule debt in order to even the maturity profile or to achieve revenue savings;

(v) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates.

4 TREASURY MANAGEMENT STRATEGY FOR 2017/18

4.1 Objectives

The budget for net interest and debt repayment costs for 2017/18 is £21.8m. The Treasury Management policy will therefore form a cornerstone of the Medium Term Resource Strategy. Specific objectives to be achieved in 2017/18 are:

(a) Borrowing

- To minimise the revenue costs of debt
- To manage the City Council's debt maturity profile to ensure that no single financial year exposes the authority to a substantial borrowing requirement when interest rates may be relatively high
- To match the City Council's debt maturity profile to the provision of funds to repay debt if this can be achieved without significant cost
- To effect funding in any one year at the cheapest long term cost commensurate with future risk
- To forecast future interest rates and borrow accordingly (i.e. short term and/or variable when rates are 'high', long term and fixed when rates are 'low').

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements

- To reschedule debt in order to take advantage of potential savings as interest rates change or to even the maturity profile.

(b) Lending

- To ensure the security of lending (the maximisation of returns remains a secondary consideration) by investing in:
  - the United Kingdom Government and institutions or projects guaranteed by the United Kingdom Government;
  - Other local authorities in England, Scotland and Wales
  - Aa rated pooled funds including money market funds and enhanced money market funds;
  - British institutions including commercial companies, registered social landlords (RSLs) and universities that meet the City Council's investment criteria
  - Foreign institutions including commercial companies and universities that meet the City Council's investment criteria within the jurisdiction of a Aa government
- To maintain £10m in instant access accounts
- To make funds available to Council's subsidiaries
- To make funds available for the regeneration of Hampshire
- To optimise the return on surplus funds
- To manage the Council's investment maturity profile to ensure that no single month exposes the authority to a substantial re-investment requirement when interest rates may be relatively low to the extent that this can be managed without compromising the security of lending

4.2 Risk Appetite Statement

The Council attaches a high priority to a stable and predictable revenue cost from treasury management activities in the long term. This reflects the fact that debt servicing represents a significant cost to the Council's net revenue budget. The Council's objectives in relation to debt and investment can accordingly be stated as follows:

To assist the achievement of the Council's service objectives by obtaining funding and managing the debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of long term interest cost stability. Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with a low risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies, RSLs, universities and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit, corporate bonds, covered bonds and repos / reverse repos. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices.

The Council may invest in low risk structured investment products that follow the developed equity markets where movements in prices may diminish the capital sum invested. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long term investments.

4.3 Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term, debt will only be for a capital purpose, CIPFA's Prudential Code which the City Council is legally obliged to have regard to requires the City Council to ensure that debt does not, except in the short term, exceed the total of capital financing requirement (CFR). The CFR measures the Council's underlying need to borrow. If in any year there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for the comparison with gross external debt. The Council's forecast gross debt is shown in the table below.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Borrowing	495,239	488,827	482,416	476,005
Finance leases	1,528	877	871	869
Service Concessions (including Private Finance Initiative schemes)	79,639	76,456	73,769	70,264
Total Gross debt	**576,406**	**566,160**	**557,056**	**547,138**
Capital Financing Requirement (CFR):				
Opening CFR in 2016/17	435,250			
Change in CFR in 2016/17				
Closing CFR in 2016/17	494,948	494,948	494,948	494,948
Cumulative increase in CFR in future years		77,478	80,986	80,986
Closing CFR	**494,948**	**572,426**	**575,934**	**575,934**
Borrowing Under / (Over) the CFR	**(81,458)**	**6,266**	**18,878**	**28,796**

The Council's gross debt exceeds its estimated CFR, ie. it is over borrowed, in 2016/17 because £94m was borrowed from the Public Works Loans Board (PWLB) at an average rate of 2.37% to take advantage of the particularly low borrowing rates in the summer of 2016. The Council is currently earning 1.12% on its investments. Therefore in the short term there is a cost of carry of 1.25% until the money that was borrowed is used to fund capital expenditure.

The capital programme approved by the City Council on 14th February 2017 includes £84.6m of capital expenditure financed by borrowing in 2017/18. This includes £45.4m of expenditure on the acquisition of investment properties to provide an income stream to support the Council's services. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2017/18.

4.4 Gross and Net Debt

4.4.1 The borrowing and investment projections for the Council are as follows:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Gross Debt at 31 March	576,406	566,160	557,056	547,138
Investments at 31 March	(323,000)	(232,000)	(213,000)	(193,000)
Estimated Net Debt	**253,406**	**334,160**	**344,056**	**354,138**

4.4.2 The current high level of investments has arisen from the Council's earmarked reserves and borrowing in advance of need to take advantage of low borrowing rates thus securing cheap funding for the Council's capital programme. The current high level of investments does increase the Council's exposure to credit risk, ie. the risk that an approved borrower defaults on the Council's investment. In the interim period when investments are high in advance of capital expenditure being incurred, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested. However the Council's treasury management investments are expected to decline in 2017/18 as funds are used to invest in commercial properties.

4.5 Interest Rates

4.5.1 Interest Rate Forecasts for 2017/18

No treasury consultants are currently employed by the City Council to advise on the borrowing strategy. However, the City Council does employ Capita Asset Services to provide an economic and interest rate forecasting service and maintains daily contact with the London Money Market.

4.5.2 Long Term Borrowing Interest Rates

The following table gives Capital Asset Services central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

Background information relating to these forecasts and the risks to these interest rate forecasts is contained in Appendix B.

Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost, ie. the difference between borrowing costs and investment returns.

4.5.3 Short Term Investment Interest Rates

Investment returns are likely to remain relatively low during 2017/18 and beyond.

4.6 Volatility of Budgets

The budget for interest payments and receipts is based on both the level of cash balances available and the interest rate forecasts contained in paragraph 4.5. Any deviation of interest rates from these forecasts will give rise to budget variances.

The Council is exposed to interest rate fluctuations through the need to invest up to £359m of surplus cash in the short term.

The Council currently has substantial sums of cash invested in the short term, and if interest rates fall below the budget forecast, investment income will be less than that budgeted. For example, if short-term interest rates fall to 0.5% below the budget forecast, the income from the Council's investments will be £1,795k below budget in 2017/18. Conversely, if short-term interest rates rise to 0.5% above the budget forecast, income from the Council's investments will exceed the budget by £1,795k in 2017/18.

4.7 Upper limits for fixed interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for fixed interest rate exposures.

The City Council's maximum fixed interest rate exposure throughout each year is anticipated to be as follows:

	2016/17 **£m**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Maximum Projected Gross Borrowing – Fixed Rate	495	495	501	505
Minimum Projected Gross Investments – Fixed Rate	(184)	(106)	(18)	(18)

The upper limits for fixed interest rate exposures will be set as follows:

2016/17	£311m
2017/18	£389m
2018/19	£483m
2019/20	£487m

The upper limits for fixed interest rate exposure are set to provide sufficient flexibility for the Director of Finance and Information Services (Section 151 Officer) to take out fixed rate loans to finance capital expenditure if interest rates fall or are expected to rise significantly.

4.8 Upper limits for variable interest rate exposures

The CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes require local authorities to set upper limits for variable interest rate exposures.

The City Council's maximum variable interest rate exposure throughout each year is anticipated to be as follows:

	2016/17 **£m**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Minimum Projected Gross Borrowing – Variable Rate	-	-	-	-
Maximum Projected Gross Investments – Variable Rate	(311)	(389)	(483)	(487)

The Council's variable interest rate exposure is negative because it has no variable rate loans and a high proportion of its investments are either variable rate or will need to be reinvested within a year. The Council's requirement for cash varies considerably through the year. Therefore the Council needs to invest a proportion of its surplus cash either in instant access accounts or short term investments to avoid becoming overdrawn. The Council is exposed to an interest rate risk in that its investment income will fall if interest rates fall, whilst its borrowing costs will remain the same as all its loans are fixed at rates that will not fall with investment rates. Investment rates are currently very low and the scope for further reductions is very limited. The Council's maximum projected gross variable interest rate investments increases as existing long term fixed interest rate investments mature. Some of this risk may be mitigated through making further long term fixed rate investments. However, this will increase credit risk. It would also be prudent to maintain an even maturity profile so that the Council can benefit from rising interest rates in the future.

The upper limits for variable interest rate exposures will be set as follows:

2016/17	(£311m) – Investments up to £311m
2017/18	(£389m) – Investments up to £389m
2018/19	(£483m) – Investments up to £483m
2019/20	(£487m) – Investments up to £487m

4.9 Limits on total principal sums invested for periods longer than 364 days

Under the Treasury Management Code it is necessary to specify limits on the amount of long term investments, ie. investments exceeding 364 days that have maturities beyond year end.

Investing long term at fixed rates provides certainty of income and reduces the risk of interest rates falling. However this benefit is significantly reduced at the moment as the interest rates on new investments are low, typically less than 1% which restricts how much further returns can fall. At the current time, investing long term allows higher yields to be obtained, although it would be prudent to maintain opportunities to invest when interest rates are higher. There are regular fluctuations in the Council's cash balances which can amount to £45m. In addition cash balances are expected to be at their lowest at the end of the financial year as tax receipts are lower in March. On this basis the following limits will be placed on total principal sums invested for periods longer than 364 days):

31/3/2017 = £200m
31/3/2018 = £168m
31/3/2019 = £148m
31/3/2020 = £144m

4.10 Limits for the maturity structure of borrowing

The Government has issued guidance on making provision for the repayment of General Fund debt (see paragraph 8) which the Council is legally obliged to have regard to. The City Council is required to begin to make provision for the repayment of debt in advance of most of the Council’s debt falling due for repayment. Therefore the City Council is required to provide for the repayment of debt well in advance of it becoming due. This is illustrated in the table below. This means that it is necessary to invest the funds set aside for the repayment of debt with its attendant credit and interest rate risks (see paragraph 3.1). The City Council could reschedule its debt, but unless certain market conditions exist at the time, premium payments have to be made to lenders (see paragraph 4.11).

CIPFA's Treasury Management in the Public Services Code of Practice which the City Council is legally obliged to have regard to requires local authorities to set upper and lower limits for the maturity structure of their borrowing.

It is recommended that the upper limit should be set high enough to allow for debt to be rescheduled into earlier years and for any new borrowing to mature over a shorter period than that taken out in the past. The high upper limit for debt maturing in over 40 years time reflects existing borrowing as the upper limit cannot be set lower than the existing maturity profile and is also necessary because no provision is being made for the repayment of debt incurred by the Housing Revenue Account apart from the Self Financing payment.

It is recommended that the lower limit be set at 0%.

In order to ensure a reasonably even maturity profile (paragraph 4.1(a)), it is recommended that the council will set upper and lower limits for the maturity structure of its borrowings as follows.

Amount of fixed rate borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Loan Debt Maturity	**Underlying Loans Minimum Revenue Provision (MRP)**	**% Over / (Under) Loans MRP**	**Lower limit**	**Upper limit**
Under 12 months	1%	2%	(1%)	0%	10%
12 months and within 24 months	4%	2%	2%	0%	10%
24 months and within 5 years	4%	7%	(3%)	0%	10%
5 years and within 10 years	6%	12%	(6%)	0%	20%
10 years and within 20 years	22%	25%	(3%)	0%	30%
20 years and within 30 years	11%	24%	(13%)	0%	30%
30 years and within 40 years	21%	24%	(3%)	0%	30%
40 years and within 50 years	31%	3%	28%	0%	40%

The current maturity pattern contained in Appendix C is well within these limits.

4.11 Debt Rescheduling

4.11.1 At the present time, the Council's average cost of borrowing is 3.80%. All the City Council's long term external debt has been borrowed at fixed interest rates ranging from 2.09% to 5.01%. 52% of the Council's debt matures in over 30 years' time. Appendix C shows the long term loans maturity pattern. Therefore debt rescheduling could be beneficial in evening out the debt maturity profile.

4.11.2 In the event that it were decided to further reschedule debt, account will need to be taken of premium payments to the Public Works Loans Board (PWLB). These are payments to compensate the PWLB for any losses that they may incur.

4.11.3 The Housing Revenue Account (HRA) will be responsible for its proportion of the premium due for early redemption of debt, based on the percentage of debt attributable to the HRA at the start of the financial year. The premiums would be charged to the General Fund and the HRA. Regulations allow the City Council to spread the cost of the premiums over a number of years, during which the accounts would benefit from reduced external interest rates.

4.11.4 The Director of Finance and Information Services (Section 151 Officer) will continue to monitor the Council's debt and will undertake further rescheduling if it would be beneficial.

4.12 Treasury Management Indicators

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice requires the Council to approve a number of treasury management indicators which set the limits within which the Council's treasury management activities will be undertaken. These are contained in the Treasury Management Strategy above and are summarised in Appendix D **(recommendation 3.1b)**.

5 APPROVED METHODS OF RAISING CAPITAL FINANCE

5.1 The following list specifies the various types of borrowing instruments which are available: -

	Variable	Fixed
PWLB	Y	Y
Market Long-term	Y	Y
Municipal Bonds Agency		Y
Market Temporary	Y	Y
Overdraft	Y	
Negotiable Bonds	Y	
Internal (capital receipts & revenue balances)	Y	Y
Commercial Paper	Y	Y
Medium Term Notes	Y	Y
Leasing	Y	Y
Bills & Local Bonds	Y	Y

5.2 The main methods of raising capital finance used by the City Council are discussed in greater detail within Section 6 of this policy. Other methods are not generally used because of the perceived risk or because administrative costs are high, such as in the case of Local Bonds.

5.3 Local authorities are not required to conform to the Money Laundering Regulations stipulated in the Financial Services Acts. However, these principles where practical will be applied when arranging future money market borrowing to ensure that funds are not obtained from potentially unscrupulous sources.

6 APPROVED SOURCES OF BORROWING

6.1 Further information on some of the main borrowing instruments used by the City Council is set out below: -

(a) Public Works Loans Board (PWLB)

The main source of longer term borrowing for the City Council for many years has been from the Government through the Public Works Loans Board. The PWLB offers fixed rate loans from 1 year to 50 years at varying rates with different methods of repayment.

Alternatively the PWLB offers variable rate loans for 1 to 10 years, where the interest rate varies at 1, 3 or 6 month intervals. These loans can be replaced by fixed rate loans before maturity at an opportune time to the authority.

(b) Money Market Loans – Long Term

Loans for 1 to 70 years are available through the London Money Market although, depending of the type of loan being arranged, the rates of interest offered may not match those available from the PWLB, especially for Equal Instalment of Principal loans (E.I.P. loans). Any loans to be taken are evaluated to ensure that the interest rate is the lowest the City Council could obtain.

Loans offered by the money market are often LOBO (Lenders Option, Borrowers Option) loans. This enables the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force. At the time when the interest rate becomes variable, the lender has the option to increase the rate charged every 6 months (or any other agreed review period). The borrower has the option to repay the loan with no penalties if the interest rate is increased on any of the review dates.

(c) Bonds

Bonds may be suitable for raising sums in excess of around £150m. The interest payable on bonds may be less than that charged by the PWLB, but considerable upfront fees would be incurred. To obtain the best interest rate, the Council would need to obtain a credit rating which would need to be maintained. This would incur a further upfront fee and an annual maintenance fee.

Because such a large amount needs to be borrowed to attract investors and also to reduce the upfront fees and negate the need for an individual credit rating a pooled issuance with other local authorities may be more viable.

(d) Municipal Bonds Agency (MBA)

A municipal bonds agency has been established by the Local Government Association (LGA) to enable local authorities to undertake long term borrowing at lower rates than those offered by the PWLB. The MBA is expected to issue its first bond and advance its first loans to local authorities. The MBA has yet to issue its first bond. Loans will be advanced on fixed dates determined by the municipal bonds agency. Loans will be repayable at maturity with the duration of the loan being fixed by the MBA.

(e) Money Market Loans – Temporary (Loans up to 364 days)

The use of temporary borrowing through the London Money Market forms an important part of the strategy. The authorised limit for external debt in 2017/18 of £607m set by the City Council on 14 February 2017 must not be exceeded. It is not anticipated that the City Council will need to use the temporary borrowing facility in 2017/18.

(f) Overdraft

An overdraft limit of £2m has been agreed with the Barclays Bank plc. Interest on the overdraft is charged at 1% above base rate. The City Council does not anticipate that short-term borrowing will generally be necessary during 2017/18 as it currently holds sufficient funds to enable the authority's cash flow to be managed without the need to borrow. However, the overdraft facility may be used when there are unforeseen payments and funds placed on temporary deposit cannot be called back in time.

(g) Internal Funds

Internal funds include all revenue reserves and other specific reserves maintained by the City Council, including the minimum revenue provision which is available to either repay debt or to be used instead of new borrowing. The cash held in internal funds such as earmarked reserves can be borrowed in the short term to finance capital expenditure or the repayment of debt, thus delaying the need to borrow externally.

7. APPORTIONMENT OF BORROWING COSTS TO THE HOUSING REVENUE ACCOUNT (HRA)

7.1 The Council will continue to operate with a single loans pool and apportion costs according to locally established principles. The principles upon which the apportionment of borrowing costs should be based are as follows:

- The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;
- The loans portfolio is managed in the best interests of the whole authority;
- The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA.

8 ANNUAL MINIMUM REVENUE PROVISION FOR DEBT REPAYMENT STATEMENT

8.1 The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to make “prudent provision” for the repayment of General Fund debt from 2008/09 onwards. There is no requirement to make “prudent provision” for the repayment of Housing Revenue Account (Council Housing) debt. The Government has provided a definition of “prudent provision” which the Council is legally obliged to “have regard” to. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

8.2 The guidance also requires the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. This is contained within paragraphs 8.3 to 8.5 below.

8.3 The following methodologies will be applied to calculating the MRP:

Borrowing	**MRP Methodology**
General Fund Borrowing:	
Government supported borrowing other than finance leases and service concessions including private finance initiative schemes	50 year annuity (this differs from the previously approved methodology based on a straight 2%)
Finance leases and service concessions including private finance initiative schemes	MRP equals the principal repayments made to lessors and PFI operators
Self - financed borrowing excluding borrowing to fund long term debtors (including finance leases), investment properties and equity shares purchased in pursuit of policy objectives	50 year annuity
Self - financed borrowing to fund long term debtors	The repayments of principal are set aside to repay the borrowing that financed the original advance
Self - financed borrowing to fund finance leases	The principal element of the rent receivable be set aside to repay the borrowing that financed these assets
Self - financed borrowing to fund investment properties	The repayment of unsupported borrowing will be provided for by setting aside the capital receipt when the property is disposed of
Self - financed borrowing to fund equity shares purchased in pursuit of policy objectives	No MRP is made unless the shares are sold in which case the capital receipt is set aside to repay debt
Housing Revenue Account (HRA)	MRP is provided for the HRA Self Financing Payment in equal instalments over 30 years. MRP is not provided for other HRA debt.

8.4 Government Supported Borrowing Other than Finance Leases and Service Concessions Including Private Finance Initiative Schemes

On 9 February 2016 the Council adopted an MRP policy for supported borrowing based on a straight 2% for 2016 /17, ie. the Council would provide for its supported borrowing in equal instalments over 50 years.

However, 52% of the Council's borrowings mature in over 30 years' time. All but £11m of the Council's borrowing is PWLB debt. The PWLB introduced new lower discount rates to calculate premiums on the early repayment of debt in 2010. Most of the existing debt is unlikely to be repaid early or rescheduled due to the increased premiums resulting from this. In the meantime providing MRP on the basis of a straight 2% is contributing to the Council's high cash balances. The need to invest such high cash balances exposes the Council to credit risk in the event that one of the Council's investment counterparties gets into financial difficulties.

Authorities must always have regard to the guidance, but are free to determine their own MRP policy provided it can be shown to be prudent. It is therefore recommended that the Council adopts a MRP policy for supported borrowing based on a 50 year annuity with effect from 2016/17 **(recommendation 3.1a(i))**. This will mean that the Council will make a lower MRP for the repayment of debt in earlier years and a higher MRP for the repayment of debt in later years. This will ensure that provision is made for the repayment of all supported borrowing in a way that better reflects the maturity pattern of the Council's borrowing and avoids the credit risk associated with providing for the repayment of debt long before there is any realistic chance of the debt actually being repaid. The graph in Appendix E illustrates these points. It should also be borne in mind that the real value of the Council's long term borrowing will be considerably eroded by inflation prior to it becoming due for repayment which is a further argument for not providing for its repayment excessively early.

8.5 Over Provision of Minimum Revenue Provision (MRP)

The Council has reviewed how it provides for the repayment of its debt. It is felt that the previous methods used in the past have resulted in over provisions of MRP from 2008/09 to 2015/16 amounting to £31.3m. It is recommended that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to release the over provision of MRP back into General Fund balances over a prudent period by reducing the MRP in future years **(recommendation 3.1a(ii)).** It would not be considered prudent to release the over provision directly to the General Fund balances in a single year.

9 ANNUAL INVESTMENT STRATEGY

9.1 The Government has also issued guidance on investments. The guidance requires the City Council to adopt an Annual Investment Strategy. This is contained within paragraphs 10 to 16 below. The requirements of the Department for Communities and Local Government are in addition to the requirements of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice.

9.2 During the year the Council may be asked to approve a revised strategy if there are investment issues which the full Council might wish to have brought to their attention.

9.3 The guidance defines a prudent policy as having two objectives:

- achieving first of all security (protecting the capital sum from loss);
- liquidity (keeping the money readily available for expenditure when needed).

Only when proper levels of security and liquidity have been secured should yield be taken into account.

9.4 Investment strategies usually rely on credit ratings and both the current and recommended Investment Strategies are based on credit ratings. Although the recommended Investment Strategy is based on credit ratings other sources of information will be taken into account prior to placing deposits such as information in the quality financial press and credit default swaps (CDS) prices.

9.5 CDS are a financial instrument for swapping the risk of debt default. The buyer of a credit default swap pays a premium for effectively insuring against a debt default. He receives a lump sum payment if the debt instrument is defaulted. The seller of a credit default swap receives monthly payments from the buyer. If the debt instrument defaults they have to pay an agreed amount to the buyer of the credit default swap.

10. INVESTMENT CONSULTANTS

10.1 The City Council currently employs consultants to provide the following information:

- Interest rate forecasts
- Credit ratings
- CDS prices

11. SPECIFIED INVESTMENTS

11.1 The Government requires the Council to identify investments offering high security and high liquidity. These are known as specified investments. Specified investments will be made with the minimum of procedural formalities. They must be made in sterling with a maturity of no more than one year and must not involve the acquisition of share capital in any corporate body.

11.2 Credit rating information is available to the financial market through three main credit rating bodies ie. Moody's, Fitch, and Standard and Poor. Short and long term credit ratings are provided by all three agencies. Long term credit ratings are explained in Appendix F.

11.3 The grades of short and long term credit rating are as follows with the best credit ratings at the top. The credit ratings that meet the City Council's investment criteria for specified investments are shaded.

Fitch		Moody's		Standard & Poor's	
Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
F1+	AAA	P-1	Aaa	A-1+	AAA
	AA+		Aa1		AA+
	AA		Aa2		AA
	AA-		Aa3		AA-
F1	A+		A1	A-1	A+
	A	P-2	A2		A
	A-		A3	A-2	A-
F2	BBB+	P-3	Baa1	A3	BBB+
	BBB		Baa2		BBB
F3	BBB-		Baa3		BBB-

11.4 It is recommended that specified investments should only be placed with institutions that have a long term credit rating of at least A- from at least two rating agencies except enhanced money market funds and registered social landlords for which a single credit rating will be required. Industry practice is for enhanced money market funds to have a single credit rating, but such funds are well diversified. It is recommended that these funds be treated as category 6 (A+) investments to reflect the increased risk of relying on a single credit rating (as opposed to category 4 if two ratings had been obtained) **(Recommendation 3.1a(iii))**.

11.5 Most registered social landlords (RSLs) are only rated by a single agency. However RSLs are regulated by the Homes and Communities Agency (HCA) which rates the financial viability of RSLs. It is recommended that investments are only placed with RSLs that have a financial viability rating of V1 from the HCA **(Recommendation 3.1a(iv))**.

11.6 In addition to rating financial institutions the rating agencies also rate governments. These are known as sovereign credit ratings. The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process with the new regulatory environment attempting to break the link between sovereign support and domestic financial institutions. However sovereign credit ratings are also dependent on a government's ability to raise taxes and thus also give an indication of the state of a nation's general economy. Investments will only be placed with institutions based in either the United Kingdom or states with an AA credit rating.

11.7 When an institution or state has differing ratings from different agencies, the average rating will be used to assess its suitability. Those institutions that have not been rated by a particular agency will not be discarded because of the lack of ratings.

11.8 It is proposed that investments be allowed in government bodies, banks including supranational banks, building societies, money market funds, enhanced money market funds, RSLs, universities and corporate bonds that meet the Council's investment criteria.

11.9 Money market funds are well diversified funds that invest in high quality very short term instruments enabling investors to have instant access to their funds. Enhanced money market funds, also known as short dated investment funds, are also well diversified funds investing in high quality counter parties, but for longer periods, and require a few days' notice of withdrawals. Industry practice is for enhanced money market funds to have a single credit rating.

11.10 Corporate bonds are tradable loan instruments issued by commercial companies. Credit ratings measure the risk of default, ie. the risk of not receiving principal and interest when it is due, across these institutions in a way that allows them to be compared. However, other measures of credit risk such as CDS prices are not available for all institutions including most building societies, RSLs, universities and commercial companies.

11.11 There are over 30 registered social landlords (RSLs) with a single or double A credit rating. RSLs often have a single credit rating from one agency, but are subject to Government regulation. The Homes and Communities Agency (HCA) assigns a viability rating to larger RSLs with in excess of 1,000 dwellings as follows:

V1 - the RSL meets the HCA's financial viability standard and has the capacity to mitigate its exposures effectively

V2 - the RSL meets the HCA's viability requirements but need to manage material financial exposures to support continued compliance

V3 - the RSL does not meet the HCA's viability requirements. There are issues of serious regulatory concern and in agreement with the HCA; the RSL is working to improve its position

V4 - the RSL does not meet the HCA's viability requirements. There are issues of serious regulatory concern and the RSL is subject to regulatory intervention or enforcement action

However an RSL's debts are not guaranteed by the Government.

11.12 Building societies also operate under a separate legal regime to banks, which limits the amount of lending not secured on residential property and limits the amount of wholesale funding. When a building society has got into financial difficulties in the past it has always been taken over by another building society without its creditors losing any of their money. For these reasons building societies are placed in a category one notch above other institutions with the same credit rating.

11.13 Lending to universities will be permitted **(Recommendation 3.1a(v)).** A number of universities have credit ratings and are as secure as a commercial company with a similar credit rating.

11.14 The Council's direct investments will be limited to senior debt. Subordinated corporate bonds are sometimes issued by financial institutions and commercial companies. Subordinated corporate bonds offer higher yields, but in the event of an institution defaulting, senior debtors are repaid before subordinated debtors. Because of this, subordinated bonds often have a lower credit rating than senior debt issued by the same institution.

11.15 There are structured investment products available that pay returns in excess of 5% per annum provided that neither the FTSE 100, S&P 500 or Eurostoxx 50 decline by more than 40% over 5 years and repay the capital invested if the worst performing index and the Eurostoxx 50 do not fall by more than 65%. There are also similar structured investment products available that will pay in excess of 6% per annum provided that none of the indices decline by more than 50% over 6 years. The Director of Finance and Information Services (Section 151 Officer) may invest the Council's funds in structured investment products which follow the developed stock markets that do not fully protect the Council's capital invested. These products are effectively bank deposits where the return is determined by stock market performance. As such they are subject to credit risk if the issuer defaults.

11.16 It is proposed to divide the approved counter parties for specified investments into eight categories as follows:

	Maximum Investment in a Single Organisation
Category 1 United Kingdom Government including the Debt Management Office Deposit Facility	Unlimited investments for up to 6 years
Category 2 Local authorities in England, Scotland and Wales	£30m for up to 6 years
Category 3 RSLs with a single long term credit rating of Aa-	£30m for up to 10 years
Category 4 Banks, corporate bonds and universities with a short term credit rating of F1+ and a long term rating of Aa-. Aaa rated money market funds	£26m for up to 6 years
Category 5 RSLs with a single long term credit rating of A-	£20m for up 10 years
Category 6 Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A+. Building societies with a short term credit rating of F1 and a long term rating of A. Enhanced money market funds with a single AA credit rating	£20m for up to 6 years.
Category 7 Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A. Building societies with a short term credit rating of F1 and a long term rating of A-.	£15m for up to 6 years
Category 8 Banks, corporate bonds and universities with a short term credit rating of F1 and a long term rating of A-.	£10m for up to 6 years

11.17 A list of financial institutions currently meeting the Councils investment criteria is contained in Appendix G. There are too many RSLs, universities and companies issuing corporate bonds to include in the list.

11.18 Investing in counter parties that do not meet the Council's credit criteria if the investment is secured against assets that do meet the Council's investment criteria will increase the number of counter parties the Council can invest in and may increase investment returns. Although this will increase the risk of defaults, it should not increase the risk of investment losses provided that the contracts are properly drawn up and the assets offered as security pass to the Council.

11.19 Sometimes institutions issue covered bonds which are secured against assets held by that institution. It is recommended that investments be permitted in covered bonds that are secured against local authority debt or covered bonds that have a credit rating that meets the Council's investment criteria even if the counter party itself does not meet the Council's credit criteria **(recommendation 3.1a(vii)).**

11.20 Repo / reverse repo is accepted as a form of collateralised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). A repo is a form of secured borrowing where readily saleable collateral, normally gilts or treasury bills are placed with the lender. If the borrower fails to repay the loan the lender keeps the collateral that has been deposited. A reverse repo is the equivalent form of secured lending. Therefore whilst the borrower would have a repo, the Council would have a reverse repo. Should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked gilts
- Conventional gilts
- UK treasury bills

It is recommended that investments in repos / reverse repos collateralised against index linked gilts, conventional gilts and UK treasury bills be permitted, and that should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required. **(recommendation 3.1a(viii))**.

11.21 Credit ratings be reviewed weekly and that any institution whose lowest credit rating falls below the criteria for category 8 in paragraph 11.16 be removed from the list of specified investments.

11.22 Institutions that are placed on negative watch or negative outlook by the credit rating agencies will be reassigned to a lower category.

12. NON-SPECIFIED INVESTMENTS

12.1 The Government’s Guidance requires that other less secure types of investment be identified and that a limit be set on the overall amount that may be held in such investments at any time in the year. Non-specified investments are investments that are not secure, ie. do not have an “A” credit rating or are not liquid, ie. have a maturity in excess of 364 days. Investments that are not denominated in sterling would also be non-specified investments due to exchange rate risks.

12.2 In order to reduce the risks associated with placing funds with a relatively small number of counter parties and to improve returns it is recommended that further investment categories be established for non-specified investments that do not meet the criteria for specified investments.

Category 9 - £10m for 2 years
Short Term – F2 (or equivalent from Fitch, Moody's and Standard & Poor)
Long Term – BBB or better (or equivalent from Fitch, Moody's and Standard and Poor)

Category 9 will consist of rated building societies that meet the above criteria.

Category 10 - £7m for 364 days

Short Term – F2 (or equivalent from Fitch, Moody's and Standard & Poor)
Long Term – BBB+ or better (or equivalent from Fitch, Moody's and Standard and Poor)

Investing up to 364 days in investments with a long term credit rating of BBB+ / Baa1 and a short term credit rating of at least F2 / P-3 / A3 would diversify the portfolio by enabling investments to be made in more commercial companies such as British Telecom. The risk of an investment defaulting is driven by the credit quality of the investment counter party and the duration of the investment, ie. the amount of time that credit quality can deteriorate over. An investment counter party rated BBB+ is more likely to default than an investment counter party rated A-. However an 18 month investment is more likely to default than a 12 month investment. Therefore a 12 month investment rated BBB+ can offer a lower probability of default than an 18 month investment rated A-. Therefore investing up to 364 days in investments rated BBB+ would diversify the portfolio by enabling investments to be made in more commercial companies without increasing the risk of default. Such investments could also achieve investment returns in excess of 0.9%.

Category 10 will consist of institutions that meet the above criteria.

Category 11 - £8m

Long Term – BBB or better (or equivalent from Fitch, Moody's and Standard and Poor)

Further diversification could be achieved by investment in a corporate bond fund. Investing in a corporate bond fund where the average credit rating of the underlying investments is BBB+ could yield 1.92% after fees. Such funds could include underlying investments with BBB- credit ratings although each investment would amount to no more than 4% of the fund. If one of the underlying investments did default the Council's holding in the fund could be worth less than what it paid into the fund, ie. the Council could make a loss. It is therefore recommended that total investments in such funds be restricted to £8m.

Category 11 will consist of corporate bonds bought on the Council's behalf by professional fund managers who will target an average credit rating of at least BBB+ for the corporate bond fund. The average credit rating of the corporate bond fund may fall to BBB if there was a downgrade to a single issue or a broad downgrade. We would not want the fund manager to be a forced seller in this situation. If this situation arises a strategy will be agreed with the fund manager to return the average rating of the portfolio to BBB+.

Category 12 - £6m for 2 years

Many smaller building societies that have been more conservative in their lending approach do not have credit ratings. An analysis of building society accounts suggests that many of those without credit ratings are in a better financial position than some of the larger ones who do hold credit ratings.

Category 12 consists of the unrated building societies in the strongest financial position.

The limits on these building societies are less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Furness	£4.4m
Marsden	£1.9m
Tipton and Coseley	£1.9m
Hanley Economic	£1.8m
Dudley	£1.6m
Harpenden	£1.5m
Loughborough	£1.4m
Staffordshire Railway	£1.3m
Swansea	£1.1m
Chorley and District	£1.1m

Category 13 - £6m for 364 days

Category 13 consists of the unrated building societies that are in a strong financial position.

The limits on some building societies are less than £6m to take account of their small size in terms of assets.

Building Society	**Limit**
Progressive	£6.0m
Leek United	£4.5m
Newbury	£4.1m
Hinkley & Rugby	£2.7m
Darlington	£2.7m
Market Harborough	£2.1m
Melton Mowbray	£1.9m
Scottish	£1.9m
Mansfield	£1.4m
Vernon	£1.4m

Category 14 - £10m

Purchasing bonds in Hampshire Community Bank (HCB) would contribute to the regeneration of Hampshire and offer interest of up to 3.5%. Investing in HCB would carry greater risk than the other approved investments contained in the Council's Annual Investment Strategy as HCB is a new entity that is in the process of developing its business, and currently has neither a banking license nor a credit rating. However HCB may be able to offer assets as security to cover a corporate bond. These assets would consist of good performing loans secured against tangible assets. The loan assets offered as security would pass to the Council In the event of HCB defaulting.

Category 14 will consist of bonds issued by Hampshire Community Bnk secured against good quality assets owned by the bank.

12.3 The Council's treasury management operation is exposed to the Council's subsidiary company MMD (Shipping Services) Ltd. The Council has £550k lodged with Lloyds Bank to guarantee MMD's banking limits.

12.4 The Annual Investment Strategy provides for the Council to lend to the United Kingdom Government and local authorities in England, Scotland and Wales, A rated financial institutions and A rated corporate bonds for 6 years, and to RSLs for 10 years. However as these investments would be over a year they cannot be included as specified investments.

12.5 The Council sometimes enters into contracts denominated in foreign currencies. Such contracts normally relate to civil engineering schemes at the port. It can be beneficial to buy Euros early to fund these projects and avoid the associated currency risk.

12.6 Non-specified investments will in aggregate be limited to the following:

	£
Building societies with a BBB credit rating and unrated building societies	62m
Corporate bonds with a BBB+ credit rating	20m
Corporate bond funds with an average credit rating of BBB	8m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	213m
Investments in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**310m**

13. MAXIMUM LEVEL OF INVESTMENT IN INDIVIDUAL ORGANISATIONS

13.1 The Government's Guidance does not require a limit to be placed on the amount that can be placed in any one investment. However in order to minimise risk further, the total amount that can be directly invested with any organisation at any time will be limited as follows:

	Maximum Investment in Single Organisation
Category 1	Unlimited
Category 2	£30m for up to 6 years
Category 3	£30m for up to 10 years
Category 4	£26m for up to 6 years
Category 5	£20m for up to 10 years
Category 6	£20m for up to 6 years
Category 7	£13m for up to 6 years
Category 8	£10m for up to 6 years
Category 9	£10m for up to 2 years
Category 10	£7m for up to 364 days
Category 11	£8m with an indefinite duration (although these investments may be sold)
Category 12	£6m for up to 2 years
Category 13	£6m for up to 364 days
Category 14	£10m for 6 years
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 364 days

13.2 AA money market funds offer security and same day access. By aggregating investments they can also invest in financial institutions that may not be interested in the relatively small sums that the Council can invest. Although AA money market funds are well diversified in their investments, there is a risk that more than one fund could have investments with the same bank or that the Council may also have invested funds in the same bank as a money market fund. Therefore it is proposed that the Council should aim to have no more than £80m invested in money market funds.

13.3 Most building society lending is secured against residential properties. If property prices fall there may be inadequate security to support building societies lending giving rise to a systemic risk.

13.4 As RSL's offer one principal service and their assets principally consist of residential properties, excessive investments in RSLs would also expose the Council to a systemic risk.

13.5 Excessive investments in investment products tracking equity markets could also expose the Council to a systemic risk.

13.6 In order to minimise systemic credit risk in any sector the following limits will be applied:

Money market funds	£80m
Building societies	£107m
Registered Social Landlords	£80m
Investments tracking the equity markets	£70m

13.7 In order to minimise systemic credit risk in any region it is recommended that the following limits be applied to the geographic areas where investments can be made in foreign countries.

13.8 The following limits be applied:

Asia & Australia	£80m
Americas	£80m
Eurozone	£60m
Continental Europe outside the Eurozone	£60m

13.9 The limits above only apply to direct investments. The City Council's exposure to any institution, sector or region may exceed the limits stated above through indirect investments via money market funds. Money market funds employ specialist staff to assess counter party risks and all investments made by money market funds are short-term.

14. LIQUIDITY OF INVESTMENTS

14.1 The Council's cash flow forecast for the current year is updated daily. In addition, the Council maintains a long term cash flow forecast that extends to 2023/24. These forecast are used to determine the maximum period for which funds may be prudently committed, ie. the City Council's core cash. The City Council maintains at least £10m invested on an instant access basis to ensure that unforeseen cash flows can be financed.

15. INVESTMENT OF MONEY BORROWED IN ADVANCE OF NEED

15.1 Section 12 of the Local Government Act 2003 gives a local authority the power to invest for "any purpose relevant to its functions under any enactment or for the prudent management of its financial affairs". While the speculative procedure of borrowing purely to invest at a profit is clearly unlawful, there is no legal obstacle to the temporary investment of funds borrowed for the purpose of funding capital expenditure incurred in the reasonably near future.

15.2 Borrowing in advance of need may enable the City Council to obtain cheaper loans than those available at the time when expenditure is incurred, although the consequent investment of funds borrowed in advance of need does expose the City Council to credit risk. The interest payable on funds borrowed in advance of need is likely to exceed the interest earned on the investment of those funds in the current economic climate.

15.3 The Council's gross debt currently exceeds its estimated CFR by £81.5m, ie. it is over borrowed, in 2016/17 because £94m was borrowed from the Public Works Loans Board (PWLB) at an average rate of 2.37%.

15.4 The capital programme approved by the City Council on 14 February 2017 includes £104.7m of capital expenditure financed by borrowing over the next four years. This is expected to cause the Council's CFR to rise above its gross debt, ie. it is expected to become under borrowed in 2017/18.

16. TRAINING OF INVESTMENT STAFF

16.1 The Finance Manager (Technical & Financial Planning) manages the treasury function and is a qualified Chartered Public Finance Accountant and holds the Association of Corporate Treasurers Certificate in International Treasury Management. The Finance Manager (Technical & Financial Planning) is assisted by the Treasury Manager who is a qualified Chartered Certified Accountant. The City Council is also a member of CIPFA's Treasury Management Network which provides training events throughout the year. Additional training for investment staff is provided as required.

17. DELEGATED POWERS

17.1 Once the Treasury Policy has been approved, the Director of Finance and Information Services (Section 151 Officer) has delegated powers under the constitution of the City Council, to make all executive decisions on borrowing, investments or financing.

It is recommended that Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action **(recommendation 3.1(e))**. The Governance and Audit and Standards Committee will be informed of any breaches of the Treasury Management Policy through the treasury management monitoring reports.

18. TREASURY SYSTEMS AND DOCUMENTATION

18.1 Once the Policy Statement has been approved by the Council, the documentation of the Treasury Systems will be updated so that all employees involved in Treasury Management are clear on the procedures to be followed and the limits applied to their particular activities.

18.2 The Treasury Management Practices document covers the following topics: -

- risk management
- best value and performance measurement
- decision making and analysis
- approved instruments, methods and techniques
- organisation, clarity and segregation of responsibilities, and dealing arrangements
- reporting requirements and management information arrangements
- budgeting, accounting and audit arrangements
- cash and cash flow management
- money laundering
- staff training and qualifications
- use of external service providers
- corporate governance

19. REVIEW AND REPORTING ARRANGEMENTS

19.1 The Head of Financial Services and Section 151 Officer will submit the following **(Recommendation 3.2)**:-

(i) an annual report on the treasury management outturn to the Cabinet and Council by 30 September of the succeeding financial year

(ii) a mid year review to the Cabinet and Council

(iii) the Annual Strategy Report to the Cabinet and Council in March 2018

(iv) a quarter 3 treasury management monitoring report to the Governance and Audit and Standards Committee