



Derby City Council

COUNCIL CABINET
15 February 2017

Report of Director of Finance and Section 151
Officer

ITEM 9

Treasury Management Strategy 2017/18

SUMMARY

- 1.1 This report outlines and seeks approval of the Council's Treasury Management Strategy for the financial year 2017/18 and the Treasury Management Indicators derived from this strategy. Specifically, the report includes:
- Background and information to note
 - The Treasury Management Strategy
 - Treasury Management Indicators

RECOMMENDATION

- 2.1 To approve and recommend to Council the Treasury Management Strategy for 2017/18 outlined at sections 6, 7 and 8.
- 2.2 To approve and recommend to Council the Treasury Management Indicators for 2017/18 to 2019/20 in section 9.
- 2.3 To delegate authority to the Director of Finance to amend investment levels following appropriate advice from the Council's treasury advisors as detailed in paragraph 7.16.
- 2.4 To delegate authority to the Director of Finance for the rescheduling the LOBO (Lender's Option Borrower's Option) loans.

REASONS FOR RECOMMENDATION

- 3.1 Under the Chartered Institute of Public Finance and Accountancy Code of Practice (CIPFA) 2011, the Prudential Code for Capital Finance, the Council is required to approve an annual treasury management strategy before the start of each financial year.



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SUPPORTING INFORMATION

4. Background

- 4.1 Treasury Management (TM) is about the management of the Council's cash flows to ensure it is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity and security initially before considering investment return.
- 4.2 The TM function also manages the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, requiring longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 4.3 CIPFA defines treasury management as "*The management of the local authority'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.*"
- 4.4 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 4.5 In addition, the Department for Communities and Local Government (CLG) has also issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

- 4.6 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

5. External Outlook

- 5.1 The information relating to the overall global position of the UK financial markets is currently provided by TradeRisks, who were appointed as the Council's Treasury Advisors in October 2016. TradeRisks continue to update the Council with information including on-going market activity surrounding inflation, interest rates and the banking sector.

5.2 Interest Rate Forecast

TradeRisks forecast the Bank Base Rate is to remain unchanged at 0.25% in 2017/18, before starting to rise in 2018/2019. TradeRisks' view for bank rate forecasts for financial year ends (March) are as follows:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.50%
- 2019/20 0.75%

These forecasts may weaken (i.e. increases in Bank Rate are delayed) if economic growth slows. Similarly, interest rates may rise quicker if growth were to increase.

- 5.3 TradeRisks have forecast the PWLB rates will remain in line with current rates for 2017/18.
- 5.4 For the purpose of setting the budget, it has been assumed that new investments will achieve an average rate of 0.39% during the next 3 years. This is based on the average achieved to date for 2016/17. Long term borrowing included in the budget assumptions for next three years has been based on current PWLB rates.

- 5.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council.
- 5.6 This means that if there was a "bail in" situation, the Council could potentially see their deposits reduce overnight. Our Treasury management officers are taking action to ensure diversification of deposits across banks and other organisations to mitigate any potential losses. Call Accounts and Money Market Funds are subject to bail-in. Fixed term deposits with local Authorities are not subject to bail-in, and there is an insignificant risk of insolvency. Therefore when appropriate more fixed term deposits with Local Authorities are to be undertaken to protect against the higher credit risk of unsecured bank deposits. Our Treasury Advisors will continue to keep the Council informed of any emerging position surrounding banks.

6. Treasury Management Strategy - Annual Borrowing Strategy

- 6.1 As at 31 December 2016, the Council held £338m of loans. This is made up of Public Works Loans Board (PWLb) loans of £280.1m, £35m borrowed from other local authorities, £20m of loans from Royal Bank of Scotland, £2m borrowed from Growing Places, a Local Enterprise Partnership for infrastructure projects to generate economic activity, £0.9m borrowed from Derby University. The Growing Places and University of Derby loans were loans for regeneration projects offered at favourable rates.
- 6.2. Council forecasts include further borrowing of £87m to meet the capital programme in the current and future years to maintain the current level of under borrowing. Any further borrowing will be dependent on use of cash balances. However, any amounts borrowed will not exceed the limit for authorised borrowing, of £784m in 2017/18. The authorised borrowing limit is calculated using the prudential indicators set by the Council. These indicators were approved as part of the Capital budget report on 15 February 2017 to Cabinet. The projected debt portfolio position as at 1/4/17 is detailed in Appendix 2.
- 6.3 The Council's chief consideration when borrowing money will be to strike an appropriate balance in terms of risk between securing low interest costs and achieving cost certainty over the period which funds are required.
- 6.4 The Council's borrowing strategy is also designed to address the key issue of affordability, especially given current restrictions to local authority funding, without comprising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

- 6.5 By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Our Treasury Advisors will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017/18 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 6.6 The Council may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received later. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 6.7 The Council may borrow short-term loans (normally for up to one month) to manage cash flows. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - Any institution approved for investments
 - Money Markets
 - Any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except our local Derbyshire CC Pension Fund)
 - Capital market bond investors
 - Transport for London
 - UK Municipal Bonds Agency plc. and other special purpose companies created to enable local authority bond issues
- 6.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- Operating and finance leases
 - Hire purchase
 - Private Finance Initiative
 - Sale and leaseback
- 6.9 The Council has previously raised the majority of its longer term borrowing from the PWLB. The Council forecasts it will borrow from either, the PWLB, the bond market or other Local Authorities during the strategy period. The Council continues to investigate other sources of financing and re-financing, both long and short term which may be available at more favourable rates and returns. These include:

- 6.10 **LGA Bond Agency:** UK Municipal Bonds Agency plc. was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.
- 6.11 **LOBOs:** The Council holds £20m of LOBO (Lender's Option Borrower's Option) loans from the Royal Bank of Scotland. These are loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. To clarify both of the Council LOBOs had options during 2015/16, and although the lenders did not exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. New LOBO's should not be entered into.
- 6.12 **Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.
- 6.13 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
- 6.14 **Capital Market/Bond Funding:** There are different structures that can be obtained through the capital markets. Such as deferred bonds, CPI linked bonds, fixed rate bonds. With support of the Treasury Advisors the Council will evaluate the option of borrowing from the capital/bond market during 2017/18.
- 6.15 The following includes issues that will be considered prior to undertaking any external borrowing:
- affordability
 - maturity profile of existing debt
 - interest rate and refinancing risk
 - borrowing source
 - internal cash balances
 - borrowing need.

7. Treasury Management Strategy - Investment Strategy

- 7.1 At 30 January 2017, the Council held £99m of invested funds in counterparties and institutions, as advised by our Treasury Advisors. In the past 12 months, the Authority's investment balance has ranged between £68m and £107m, and similar levels are expected to be maintained in the forthcoming year. The projected investment portfolio as at the 1/4/17 is detailed in Appendix 2.
- 7.2 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest interest return or yield. The Council's objective when investing money is to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.
- 7.3 **Recommended Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Government
UK Govt	n/a	£ Unlimited 50 years
AAA	£12,000,000 12 months	£12,000,000 6 months
AA+	£12,000,000 12 months	
AA	£12,000,000 12 months	
AA-	£12,000,000 12 months	
A+	£12,000,000 12 months	
A	£12,000,000 100 days/12 months dependent on outlook	
A-	£12,000,000 100 days/12 months dependent on outlook	
BBB+		
BBB		
None		
Pooled funds	0.5% of fund size plus 50% of whole portfolio	

This table must be read in conjunction with the notes below

- 7.4 Our Treasury Advisors will continue to provide the Council with a list of suitably secure and suggested list of financial institutions and counterparties for consideration and use of in 2017/18.

This Council uses the creditworthiness service provided by TradeRisks. This service employs a sophisticated modelling approach utilising available credit ratings from the three major rating agencies. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries;
- Market information which may impact the credit worthiness of a given institution.

Members should be assured that any institution or counterparty can be suspended or removed from the Council's approved lending list should any of the factors identified above give rise to concern.

- 7.5 The Council will consider investments within the areas deemed to meet the appropriate level of risk and reward. Appendix 3 details these types of investments.

- 7.6 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's Treasury Advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 7.7 **Other Information on the Security of Investments:** The Council recognise that credit ratings should not be the sole determinant of the quality of an institution. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices and a variety of other market information which may affect the credit of institutions. This is integrated into the credit methodology provided by the advisors, TradeRisks. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 7.8 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 7.9 Any future investments made will also follow the legislative and regulatory framework for treasury management activities which requires investments to be categorised as "Specified" or "Non-Specified".
- 7.10 **Specified Investments** The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher.

- 7.11 **Non –Specified Investments:** Any investment not meeting the definition of a specified investment is classed as a non-specified investment. The Council does not intend to make any investments denominated in foreign currencies, however if opportunities arise these will be evaluated. The Council does not intend to make any investments that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will be limited to long term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below [A-]	£0m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£12m
Total non-specified investments	£52m

- 7.12 **Investment Limits:** To limit our risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £12m. This limit was advised by our Treasury Advisors based on the size of the Councils Portfolio. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.
- 7.13 The Money Markets are governed by the Councils portfolio and this permits the council to invest up to 50% of the total balance held by the Council in money markets. The maximum deposit allowed with individual Money Market Funds is 0.50% of the overall fund size as advised by our Treasury Advisors to a maximum of £8m.
- 7.14 Overnight and weekend (short term and liquidity) investments, to a maximum of £15m will continue with Lloyds Bank who provide the Councils banking services. This is set at £15m for ease of operation due to the inclusion of Derby Homes balances.

7.15 Table 4 – Investment Limits

Provider	Cash Limit
The Councils Banking Provider - Lloyds	£15m
Any single organisation, except the UK Central Government (excluding the operational bank)	£12m
UK Central Government – Bonds - Bills	£12m
Any group of organisations under the same ownership	£12m
Any group of pooled funds under the same management	£12m
Negotiable instruments held in a brokers nominee account	£12m
European Banks	£12m
Enterprise Partnerships	£12m
Corporate Loans or Bonds	£12m
Bond, Equity and Property Funds	£12m
Registered Providers	£12m
Unsecured investments with Building societies	£12m
Loans to unrated companies	£12m
Money Market Funds (MMF)	£8m

- 7.16 It should be noted that although Table 4 shows the maximum amount that can be held in any counterparty or group (apart from Lloyds Bank) to be agreed as part of the strategy, this may change throughout the year based on the advice of our Treasury Advisors.

8. Treasury Management Strategy - Other Items

There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

8.1 Policy on use of Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 8.2 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

- 8.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 8.4 The Council has previously made use of derivatives (e.g. LOBO's) embedded into loans and investments to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk.
- 8.5 **Policy on Apportioning Interest to the HRA** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. During 2017/18 the policy on apportioning interest to the HRA will be reviewed, any changes to the policy will be reported to Cabinet.
- 8.6 **Investment Training:** The needs of the Councils treasury management staff for training in investment management are assessed every half yearly as part of the managing individual performance process, and additionally when the responsibilities of individual members of staff change.
- 8.7 Staff attend training courses, seminars and conferences provided by our Treasury Advisors and CIPFA. Relevant staffs are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.
- 8.8 **Investment of Money Borrowed in Advance of Need:** The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.
- 8.9 The total amount borrowed will not exceed the authorised borrowing limit of £714m. If money is borrowed in advance of need, the maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

8.10 In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio, which supports the need to take funding in advance of need;
- ensure the cost of carry has been considered;
- evaluate the economic reasons that might result in a decision to borrow in advance of need;
- consider the impact of increased counterparty risk when increasing investment levels as a result of borrowing in advance of need;
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- Consider whether other borrowing structures could be utilised in order to fix funding rates for future funding, but have future drawdown dates (i.e. deferred funding structures).

8.11 **Financial Implications**

The budget for investment income in 2017/18 is £0.224m, based on an average investment portfolio of £57.5m at an interest rate of 0.39%. The budget for debt interest paid in 2017/18 is £16.649m, based on an average debt portfolio of £395m including transferred debt at an average interest rate of 4.21%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. (Split into General Fund and HRA budgets if applicable).

9. **Treasury Management Indicators**

9.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

9.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	Target
Portfolio average credit score	3.00

- 9.3 **Maturity Structure of 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, exposing the Council to refinancing risk.

The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity structure of fixed rate borrowing	Expected level at 01/04/17 %	Upper Limit for 2017/18 %
under 12 months	0.44	15
under 24 months	3.62	20
under 5 years	7.24	30
under 10 years	14.24	50
under 20 years	29.53	70
under 30 years	34.86	80
under 40 years	84.44	90
under 50 years	100	100
50 years and above	0	0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

- 9.4 **Principal Sums Invested for Periods Longer than 364 days:** This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods. It controls the Councils exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond 364 days will be nil.
- 9.5 **Interest Rate Exposure Indicator:** This indicator is set to control the Authority's exposure to interest rate risk. It shows an upper limit for fixed and variable rate borrowing expressed as a percentage of net principal borrowed. Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates. A high level of variable rate debt presents a risk from increases in interest rates.

	Upper limit %
Interest Rate Exposure - Fixed	100
Interest Rate Exposure -Variable	20

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole of the financial year. Instruments that mature in the financial year are classed as variable.

- 9.6 In addition to the local treasury management indicators the Council is required under the prudential code to set and monitor against the prudential indicators. As these are mainly concerned with the capital programme and borrowing the prudential indicators were set and reported to Cabinet on the 15 February 2017 within the capital budget report 2017/18 – 2019/20.

10 **Proposed Debt Rescheduling**

- 10.1 There is £29.4m of transferred debt owed to Derbyshire County Council (DCC) as a result of unitary status in 1997. In addition the DCC have outstanding loans with us of around £3m. Negotiations are on-going to transfer PWLB loans representing these debts between authorities so each authority has control of its own debts. It is anticipated that the debts will have been transferred by 31 March 2017. The 2016/17 strategy report delegated authority to the Director of Finance to facilitate this once terms have been agreed.
- 10.2 The Treasury Advisors are investigating the potential of rescheduling the existing £20m LOBO (Lender's Option Borrower's Option) loans. This is in view of the action taken by Barclays in 2016/17 to replace their LOBO's with fixed rate loans. The Treasury Advisors will lead on the negotiations with Royal Bank of Scotland in respect of our LOBO's. It is recommended that any decisions to facilitate rescheduling the LOBO's are delegated to the Director of Finance.

OTHER OPTIONS CONSIDERED

- 11.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 5.

Table 5 - Other Treasury Management Options considered

Alternative	Impact on Income and Expenditure	Impact on Risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults, but any such will be larger
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be off set by higher investment income.	Higher investment balance leading to a higher impact in the event of default: however long-term interest costs will be more certain
Borrow short term using variable rates loans instead of long term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of default, however long term interest costs will be less certain

This report has been approved by the following officers:

Legal officer Financial officer (s) Human Resources officer Estates/Property officer Service Director(s) Other(s)	Toni Nash, Head of Finance Martyn Marples, Director of Finance and Section 151 Officer
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For more information contact: Background papers: List of appendices:	Bev Bull, Principal Accountant - 01332 643350 bev.bull@derby.gov.uk None Appendix 1 – Implications Appendix 2 - Projected Investment and Debt Portfolio Appendix 3 - Definitions of Types of Permitted Investments
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IMPLICATIONS

Financial and Value for Money

- 1.1 As described in the report.

Legal

- 2.1 The legal implications are as stated within the detail of this report.

Personnel

- 3.1 None directly arising.

Equalities Impact

- 4.1 None directly arising.

Health and Safety

- 5.1 None directly arising.

Environmental Sustainability

- 6.1 None directly arising.

Property and Asset Management

- 7.1 None directly arising.

Risk Management

- 8.1 The Council has adopted the CIPFA Prudential Code for Capital Finance which is designed to balance the financial risks of investment and borrowing activities with value for money.
- 8.2 The risks associated with investments/borrowing are detailed in the main body of the report.

Corporate objectives and priorities for change

9.1 None directly arising.

Appendix 2

Projected Investment and Debt Portfolio Position 1 April 2017

	£000
External Borrowing:	
- Fixed Rate PWLB	280,157
- Fixed Rate PWLB (HRA self-financing loan)	28,164
- Fixed Rate Market (LOBO's)	20,000
- Other Local Authorities	35,000
- Growing Places	1,442
- Derby University	933
- Local Enterprise Partnership (LEP)	467
Other Long-term Liabilities:	
- Transferred Debt from other Local Authorities	507
- PFI Financing	91,827
Total Gross External Debt	458,497
Deposits / Investments:	
- Short-term	(85,000)
- Long-term	0
Total Investments	(85,000)
Total Net External Debt	373,497

Definitions of Types of Permitted Investments

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of any of the previously outlined investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.