Glasgow City Council

City Administration Committee

Report by Councillor Allan Gow, City Treasurer

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Item 2
7th March 2019

Treasury Management Strategy and Annual Investment Strategy 2019/20

Purpose of report:

To advise members of the planned Treasury Management Strategy and Annual Investment Strategy to be adopted for 2019/20, and the prudential and treasury indicators for 2018/19 to 2021/22.

This report was considered by the Finance and Audit Scrutiny Committee on 13 February 2019 when it was agreed to refer to the City Administration Committee for approval.

Recommendations:

The committee is asked to approve:

(a) The Treasury Management Strategy and Annual Investment Strategy for 2019/20;
(b) The prudential and treasury indicators for 2018/19 to 2021/22.

Ward No(s): Citywide: ✓

Local member(s) advised:Yes ☐ No ☐ Consulted: Yes ☐ No ☐

Treasury Management Strategy and Annual Investment Statement 2019/20

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as '*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'*

1.2 The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure during the year. In addition, the council's capital plans require longer-term cash flow planning to ensure that the council can meet its capital spending obligations.

1.3 The treasury management function ensures that cash flow is adequately planned with cash being available when it is needed.

1.4 This strategy, together with the approved capital programme and annual revenue estimates, establishes the financial management framework for the management of the council's resources throughout the coming year. The Capital Strategy, a new reporting requirement introduced in the update of the Prudential Code, will enhance the current reporting framework by setting out the long-term context in which capital expenditure and investment decisions are made. The Capital Strategy (see also paragraph 16.1) will be reported to committee in March 2019.

2. Reporting framework

2.1 The Local Government in Scotland Act 2003, and supporting regulations, requires the council to 'have regard to' the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code). Both the Prudential Code and the Treasury Management Code have been adopted in full. In addition, a regulatory framework for investments was established with effect from 1 April 2010. This effectively requires the council to set out its Treasury Management Strategy and Annual Investment Strategy, including prudential and treasury indicators for the next three years.

2.2 The Treasury Management Strategy and Annual Investment Strategy will be submitted for committee approval prior to the new financial year. There is also a requirement to approve the Treasury Management and Investment Annual Report and to carry out a mid-year review of treasury management, the investment strategy and performance.

2.3 The council's treasury management activity is currently reported to the Finance and Audit Scrutiny Committee. In addition, it is considered appropriate for the City Administration Committee to approve the strategy for the forthcoming financial year and subsequently be approved by full council, in line with the requirements of the Treasury Management Code.

Treasury Management Strategy 2019/20

3. Capital Financing Requirement

3.1 The council's Capital Financing Requirement (CFR) is essentially a measure of the council's underlying need to borrow. There is an estimated increase in the CFR of £60m for 2019/20, based on assumptions within the council's current capital investment plan, and forecast debt repayment.

3.2 In addition, there will be a refinancing requirement in respect of PWLB loans maturing in 2019/20 (£61m), and also potential for a number of market loans to be recalled. There may also be further new borrowing in respect of any rescheduling opportunities that may arise, as set out in this paper.

3.3 Following the introduction of the Local Authority (Capital Finance and Accounting)(Scotland) Regulations 2016 the council is required from 1 April 2016 to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years. A variety of options is available to councils as long as prudent provision is made each year for the repayment of debt.

3.4 Work has been undertaken to review the council's loans fund principal debt repayments. As a result, the council will maintain the practice of applying the annuity method, however, principal repayments will be re-profiled to reflect the average life of the asset base. This reflects a prudent realignment of costs to match the consumption of the council's assets over their remaining lives. This exercise is anticipated to generate significant savings which may apply from the current financial year. Thereafter the council's loan debt repayments will increase incrementally, the impact of which will be included in future year's financial forecasts. As at 31 March 2018 the council's commitment to repay loans fund advances was £1,563m. These advances are repaid over time with advances repaid by 31 March 2073.

4. Prospects for interest rates

4.1 The council's treasury advisor (Link Asset Services) has provided the following view of probable interest rates for the financial year 2019/20.

(a) Long-term

The current and expected interest rates for long-term borrowing from the Public Works Loan Board (PWLB) are noted in the table below and highlight an expected increase from the current position. The PWLB rates quoted take account of the application of a 0.2% certainty rate reduction, introduced by the government in return for council's providing their borrowing forecast information. Glasgow City Council is able to access the certainty rate reduction.

PWLB rates	2018/19 Current %	2019/20 Low %	High %	2020/21 Low %	High %	2021/22 Low %	High %
5 year	2.1	2.2	2.3	2.4	2.6	2.6	2.8
10 year	2.5	2.6	2.8	2.9	3.0	3.1	3.2
25 year	2.9	3.0	3.2	3.3	3.4	3.5	3.6
50 year	2.7	2.8	3.0	3.1	3.2	3.3	3.4

(b) Short-term

The ‘Bank Rate’ is the official Bank of England rate paid on commercial bank reserves. The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate to 0.75% at its meeting in August 2018. It is considered unlikely that Bank Rate will change ahead of the deadline for withdrawal from the EU in March 2019. On the assumption that Parliament and the EU agree a withdrawal agreement in the first quarter of 2019, then the next increase in Bank Rate is forecast to be May 2019, followed by increases in February and November 2020, and ending at 2.0% by February 2022.

The following interest rate forecasts are predicated on an assumption of agreement being reached between the UK and the EU.

	2018/19 Current %	2019/20 Low %	High %	2020/21 Low %	High %	2021/22 Low %	High %
Bank rate	0.75	1.00	1.25	1.25	1.50	1.75	2.00

5. Current treasury position

5.1 A summary of the council’s treasury portfolio as at 31 December 2018 is outlined in Appendix 1.

6. Borrowing strategy 2019/20

6.1 The council’s borrowing strategy will be based upon the following factors:

6.1.1 The council’s reserve and fund balances may be utilised to limit external borrowing, as an alternative to investing these resources. Reducing investment balances rather than increasing external borrowing will both deliver interest savings, foregoing interest earned at historically low rates as opposed to interest rates paid on external borrowing, and limit exposure to investment risk. However, in view of the overall forecast for long-term borrowing rates to increase over the next few years, consideration will also be given to weighing the short-term advantage of internal borrowing against potential additional long-term costs.

6.1.2 Short-term borrowing from money markets or other local authorities is currently expected to be cheaper than long-term borrowing and will therefore be attractive throughout the financial year. However, as with internal borrowing, short-term savings by delaying new long-term external borrowing requires to be balanced with potential additional long-term costs.

6.1.3 Long-term fixed rate market loans at rates below PWLB rates for the equivalent maturity period, where available, will be considered.

6.1.4 Given that PWLB rates are expected to increase through 2019/20, consideration will be given to the timing of new fixed rate long-term borrowing. Although more expensive in the short-term, this may be more cost effective over the longer-term and also provides an element of budget certainty in respect of future years.

6.1.5 Consideration will be given to forward contracts for long-term fixed rate market loans, where available. This may allow new borrowing to be secured in advance of anticipated interest rate rises, to be drawn down at a specified date in the future. Such loans may command slightly higher interest rates than the actual at the time of the drawdown, however, this requires to be offset against there being no cost of carry or investment risk through borrowing now.

6.2 The council's annual estimates include appropriate provision for financing costs of capital expenditure. The key principles of the strategy will be to minimise debt interest costs over the medium-term and to achieve a more even spread in the debt maturity profile. It is anticipated that a range of solutions will be employed in order to mitigate against interest rate risk, as outlined above. The Executive Director of Finance, in conjunction with the treasury advisors, will continually monitor interest rate forecasts and adopt a pragmatic approach to changing circumstances.

7. Policy on borrowing in advance of need

7.1 The council will not borrow more than or in advance of its needs solely in order to profit from the investment of the additional sums borrowed. In accordance with the revised Prudential Code, any decision to borrow in advance will be considered carefully to ensure value for money and security of funds. Specifically, there will be a clear link to the capital investment programme and maturity profile of the existing debt portfolio, which supports the decision to take funding in advance of need.

8. Debt rescheduling

8.1 The principle reasons for debt rescheduling include:

- The generation of cash savings; and
- To enhance the balance of the debt maturity profile, mitigating the risk of re-financing at a higher rate of interest in any year in the future.

8.2 As short-term borrowing rates will be considerably cheaper than longer-term fixed interest rates, there may be potential opportunities to generate savings and enhance the balance of the debt maturity profile by switching from long-term debt to short-term debt. Consideration will also be given to the potential for making savings by reducing investment balances to repay debt prematurely, as short-term rates on investments are likely to be lower than rates paid on current debt. However, these options would need careful consideration in light of the short-term nature of potential savings and the likely cost of re-financing those short-term loans on maturity, if required, together with any debt repayment premiums that may be incurred.

8.3 Opportunities for debt rescheduling will be monitored on an ongoing basis throughout the year, with rescheduling undertaken if benefits were to accrue.

9. Treasury management performance

9.1 The headline performance indicator for treasury management is the pooled interest rate representing the rate of interest charged for capital advances. The pooled interest rate for 2019/20 is estimated at 4.18%, based on the strategy set out in this paper. The strategy for 2019/20 and future years is to minimise potential increases to this level.

10. Prudential and treasury Indicators 2018/19 to 2021/22

10.1 The council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to ensure that the council's capital investment plans are affordable, prudent and sustainable. The prudential and treasury indicators for 2018/19 to 2021/22 are outlined in Appendix 2 and reflect approved capital expenditure plans and future years' forecasts. These indicators are relevant for the purpose of setting an integrated treasury management strategy.

Annual Investment Strategy

11. Investment policy

11.1 The council's investment policy has regard to the Local Government Investment (Scotland) Regulations 2010, the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 and the Treasury Management Code 2017. Investment priorities will be security, minimising the risk of any loss on the principal sum invested, and liquidity. The council will aim to achieve the optimum return on its investments commensurate with levels of security and liquidity requirements. The risk appetite of the council will be low in order to give priority to security of investments.

11.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the council will not engage in such activity. The limit of investments will reflect the level of available council reserve fund balances and borrowing in advance to meet capital financing requirements, in line with the borrowing strategy, together with provision for managing the council's day-to-day cash flow requirements. Investments will be managed both internally and externally, with external fund managers managing the investment of specific fund balances.

11.3 In respect of internally managed investments, investment instruments identified for potential use during the year, together with specific investment limits, are listed in Appendix 3. Treasury risks associated with investments and the control of such risks are also outlined. Within the constraints of the policy, due consideration will also be given to the diversification of investments across counterparties and countries, in order to limit a concentration of investments with too few counterparties or countries.

11.4 There has been considerable change in the types of investment instrument brought to the market in recent years. Given the fluidity of this area, members will be kept informed and requested to approve the use of any new instruments, as appropriate, in order to allow maximum flexibility.

12. Creditworthiness policy – Financial institutions

12.1 The council uses Fitch ratings to derive its counterparty criteria and, where a counterparty does not have a Fitch rating, the equivalent Moody's rating is used. This is overlaid by the creditworthiness service provided by treasury advisors. This service uses a sophisticated modelling approach, with credit ratings from the three main rating agencies (Fitch, Moody's, Standard and Poors) forming the core element. The modelling also determines suggested duration periods for investments.

12.2 The council will continue to limit exposure to credit risk by ensuring that all investments are placed with the higher rated bodies from a weekly credit list of worldwide potential counterparties. The investment criteria to be adopted from 1 April 2019 is outlined in Appendix 4, while a sample credit list on this basis as at 4 January 2019 is given in Appendix 5, for illustration purposes. These investment criteria will be kept under review throughout the year and amended, if required, to ensure that they continue to be fit for purpose.

12.3 As part of this strategy the council will also invest in creditworthy banks using Link Asset Services as an intermediary. This will help to ensure the council achieves optimum investment performance consistent with the management of risk. The appropriate scrutiny checks will be applied prior to implementing this approach.

12.4 Credit ratings will be monitored on an ongoing basis. The council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty no longer meeting the council's minimum criteria, no further investment will be made with that institution, with immediate effect. In addition, the council will not place sole reliance on credit ratings and this external creditworthiness service. Market information and information on government support for banks will also be considered when making investment decisions.

12.5 The continuing regulatory changes in the banking sector are designed to achieve greater stability, lower risk and remove expectations of government support. As a result it is anticipated that the 'Support' rating will ultimately be withdrawn or become redundant. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to individual institutions.

12.6 As part of these regulatory changes banks were required to ring-fence essential banking services from investment banking with effect from 1 January 2019. The council's bankers, Royal Bank of Scotland (RBS), has completed the transition to their published structure in advance of the January deadline.

13. Investment strategy

13.1 The council's in-house managed investments will be made with reference to reserve balances, day to day cash flow requirements and the outlook for short-term interest rates. The interest rate forecasts provided in paragraph 4.1 (b) are predicated on the assumption of a withdrawal agreement between the UK and the EU. The Bank Rate, currently at 0.75%, is expected to remain at this level with further increases of 0.25% anticipated in May 2019, February and November 2020 bringing the Bank Rate forecast to 2.0% by February 2022.

13.2 Given that investment rates are at historically low levels, the council will generally avoid locking into longer-term deals unless attractive rates are available with counterparties of relatively high creditworthiness.

13.3 For its cash flow generated balances, the council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits.

13.4 In addition to internally managed investments, externally managed investments are currently held in respect of Sundry Trusts and the City Funds (Insurance Fund and Common Good Fund). These funds are held with investment brokers Ruffer Limited Liability Partnership and are all invested on a longer-term basis. The investment objectives of theses portfolios are to preserve the capital fund and achieve low volatility positive returns. Performance of externally managed investments is reported regularly to the Executive Director of Finance and is included in the Treasury Management annual report and mid-year review.

13.5 The Executive Director of Finance will continue to monitor the economic environment and adopt a pragmatic approach to changing circumstances. A balanced view of risk against return will be taken in respect of all investments. It is anticipated that return on investments will be limited in 2019/20 as a result of Bank Rate forecasts and the over-riding principal of risk aversion. Investment activity will be reported upon at the end of the financial year, as part of the Annual Treasury Report.

14. Non-treasury investments

14.1 Non-treasury investments are defined as the following categories:

- All shareholding, unit holding and bond holding, including those in a local authority owned company
- Loans to a local authority company or other entity formed by a local authority to deliver services
- Loans made to third parties
- Investment property

14.2 The council currently holds shares in a number of companies. It is the principal shareholder in Scottish Event Campus Ltd, holding 19,900,000 of ordinary £1 shares and representing 90.87% of the issued share capital. The council is also the principal member of City Building (Contracts) Limited Liability Partnership, City Parking (Glasgow) Limited Liability Partnership and City Property Glasgow (Investments) Limited Liability Partnership. The council is also an equal joint member of City Building (Glasgow) Limited Liability Partnership with the Wheatley Group. Cordia (Care) Limited Liability Partnership and Cordia (Services) Limited Liability Partnership ceased trading on 30 September 2018 with services now being delivered by the council.

14.3 At its meeting of 16 August 2012, the Executive Committee approved £2 million cash flow funding to City Parking (Glasgow) LLP to replace the existing bank overdraft arrangements. The authority currently has no other finance arrangements or loans to local authority companies. Any such finance arrangements or loans would be subject to specific committee approval.

14.4 Externally managed investments are held in respect of Sundry Trusts the City Funds (Insurance Fund and Common Good Fund) and are managed by Ruffer Limited Liability Partnership. As at 31 December 2018, the total market value of these funds was £34.6m (Sundry Trusts at £14.7m and City Funds at £19.9m).

14.5 The authority may make loans to third parties, where this is consistent with meeting the service objectives of the council and for which, specific statutory provision exists. Such loans up to a value of £50,000 will be approved by service directors under delegated powers, as outlined in the scheme of delegation. Loans above £50,000 are subject to specific committee approval.

14.6 For service reasons loans to third parties may be offered at an interest rate below the market rate. Where the loan is advanced at less than a market interest rate there is an associated loss of investment return which would otherwise have been earned on these monies. The cost to the council in this respect is reflected in the authority's accounts. All loans to third parties will be recognised as investments and detailed within the Annual Investment Report.

14.7 The council no longer holds investment property, largely due to the transfer of such assets to City Property Glasgow (Investments) LLP on 31 March 2010.

15. Brexit

15.1 In March 2017, the UK government notified the European Council of its intention to leave the European Union (Article 50) and enter a 2 year negotiation period. The UK will therefore continue as a full member of the European Union until 29 March 2019 at which point a 2-year transition period has been proposed. The assumptions within the Treasury Management Strategy and Annual Investment Strategy 2019/20 may be liable to further amendment depending on how economic data and developments in financial markets transpire in the next year.

16. Capital Strategy

16.1 The latest edition of the Prudential Code places a new requirement on authorities to develop a Capital Strategy, with specific objectives being to demonstrate that capital investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy will therefore provide the longer-term context in which capital investment decisions are made and give consideration to both risk and reward, and impact on the achievement of priority outcomes. The Capital Strategy will be addressed in a separate report to committee.

17. Training

17.1 The Treasury Management Code requires the proper officer to ensure that members with responsibility for treasury management receive adequate training in order to support their scrutiny role. Member training on treasury management issues last took place in November 2017. The training needs of treasury management officers are periodically reviewed.

18. Policy on the use of external providers

18.1 The council uses Link Asset Services as its external treasury management advisors. However, it is recognised that responsibility for treasury management decisions remains with the council at all times and it will ensure that undue reliance is not placed upon our external service providers.

18.2 For short-term market borrowing and investments the council utilises a number of brokers to access sterling cash markets. This ensures that the council ensures best value in daily cash flow management.

19. Scheme of delegation and role of the Section 95 officer

19.1 In line with relevant guidance notes, the treasury management scheme of delegation and the treasury management role of the Section 95 officer is outlined in Appendix 6.

20. Policy and resource impacts framework

Resource Implications:	
Financial:	The financial implications of this report are reflected in the Council's revenue estimates for 2019-20.
Legal:	No new legal implications
Personnel:	No direct personnel implications
Procurement:	No relevant procurement issues
Council Strategic Plan:	Well Governed City that Listens and Responds
Equality and Socio-Economic Impacts:	No direct impact
Does the proposal support the Council's Equality Outcomes 2017-22	No direct impact

What are the potential equality impacts as a result of this report?	No direct impact
Please highlight if the policy/proposal will help address socio economic disadvantage.	No direct impact
Sustainability Impacts:	No direct impact
Environmental:	No direct impact
Social, including Article 19 opportunities:	No direct impact
Economic:	No direct impact
Privacy and Data Protection impacts:	No direct impact

21. Recommendations

21.1 The committee is asked to approve:

a) The Treasury Management Strategy and Annual Investment Strategy for 2019/20;
b) The prudential and treasury indicators for 2018/19 to 2021/22.

Glasgow City Council

Treasury portfolio position

	Nominal amount at 31/12/18 £000	Annual average interest rate %
Fixed rate borrowing		
Public Works Loan Board	854,415	
Market loans	597,733	
Gross debt *(see notes 1 and 2)*	**1,452,148**	**4.13%**

	Nominal amount or valuation at 31/12/18 £000	Annual average interest rate %
Investments		
Internally managed (various counterparties)	53,061	0.75%
Externally managed *(see note 3)*		
Ruffer (City Funds)	19,909	-4.03%
Ruffer (Sundry Trusts)	14,725	-6.27%
	34,634	
Total investments	**87,695**	
Net debt	**1,364,453**	

Notes:

1. The value of total debt outstanding as at 31 December 2018 includes £26.665m in respect of debt managed by Glasgow City Council on behalf of Police Scotland.

2. Gross debt includes an amount of £17m of PWLB debt that is due to mature before 31 March 2019 and a further £190m subject to interest rate call during 2019/20.

3. The rates of return in respect of externally managed investments are in respect of the 2018 calendar year.

Glasgow City Council **APPENDIX 2**

Prudential and treasury indicators

2019/20 - 2021/22 Estimates

2018/19 Revised Estimate			2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
		Prudential indicators for prudence			
£m	1)	Capital expenditure (Note 1)	£m	£m	£m
210		Gross capital expenditure	220	230	200
120		Less: Capital income	90	70	60
90		Net in year borrowing requirement	130	160	140
£m	2)	Capital financing requirement (CFR) (Note 2)	£m	£m	£m
1,810		Total CFR at 31 March	1,870	1,960	2,040
20		Movement in CFR	60	90	80
		Represented by:			
90		Net in year borrowing requirement (above)	130	160	140
-70		Less: Scheduled principal repayment	-70	-70	-60
£m			£m	£m	£m
1,700	3)	Authorised limit for borrowing (Note 3)	1,750	1,830	1,920
240		Authorised limit for long-term liabilities	240	250	240
1,940		Authorised limit for external debt	1,990	2,080	2,160
£m			£m	£m	£m
1,610	4)	Operational boundary for borrowing (Note 4)	1,660	1,740	1,830
230		Operational boundary for long-term liabilities	230	240	230
1,840		Operational boundary for external debt	1,890	1,980	2,060
£m	5)	Gross debt and the CFR (Note 5)	£m	£m	£m
1,750		Gross debt at 31 March	1,810	1,890	1,980
1,810		Total CFR at 31 March	1,870	1,960	2,040
-60		Gross debt less the CFR at 31 March	-60	-70	-60
		Prudential indicators for affordability			
%	6)	Ratio of financing costs to net revenue	%	%	%
10.7%		stream (Note 6)	11.0%	11.0%	10.9%

Treasury indicators - borrowing limits

2018/19 Upper	2018/19 Lower				2019/20 Upper	2019/20 Lower	2020/21 Upper	2020/21 Lower	2021/22 Upper	2021/22 Lower
Upper	Lower	7)	Maturity structure of fixed rate borrowing (Note 7)		Upper	Lower	Upper	Lower	Upper	Lower
20%	0%		a)	Under 12 months	20%	0%	20%	0%	20%	0%
20%	0%		b)	12 months and within 24 months	20%	0%	20%	0%	20%	0%
50%	0%		c)	24 months and within 5 years	50%	0%	50%	0%	50%	0%
75%	0%		d)	5 years and within 10 years	75%	0%	75%	0%	75%	0%
90%	15%		e)	10 years and above	90%	15%	90%	15%	90%	15%
Upper	Lower	8)	Maturity structure of variable rate borrowing (Note 7)		Upper	Lower	Upper	Lower	Upper	Lower
20%	0%		a)	Under 12 months	20%	0%	20%	0%	20%	0%
20%	0%		b)	12 months and within 24 months	20%	0%	20%	0%	20%	0%
50%	0%		c)	24 months and within 5 years	50%	0%	50%	0%	50%	0%
75%	0%		d)	5 years and within 10 years	75%	0%	75%	0%	75%	0%
90%	0%		e)	10 years and above	90%	0%	90%	0%	90%	0%

Treasury indicator - investment

2018/19 Revised Estimate			2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
£m	9)	Upper limit on principal sums invested for	£m	£m	£m
100		over 365 days (Note 8)	100	100	100

Note:
With effect from 1 April 2020, accounting changes are anticipated with the introduction of IFRS 16 'Leases'. The estimated impact of these changes are included in the prudential indicators above.

Prudential and Treasury Indicators

The Local Government in Scotland Act 2003 requires the council to prepare prudential indicators to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Prudential Code 2017 also requires that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the council. The prudential and treasury indicators, reported initially as an estimate, and later as an actual, are as follows:

Prudential indicators

1. Total capital expenditure
A prudential indicator that estimates the total capital expenditure to be incurred during the forthcoming financial year and at least the following two financial years.

2. Capital financing requirement (CFR)
A prudential indicator that estimates the total financing requirement at the end of the forthcoming financial year and following two financial years. Taken directly from the balance sheet, it represents the underlying level of long-term debt required to finance the total value of past and anticipated capital investment.

3. Authorised limit for external debt
The authorised limit should be regarded as an upper limit for combined borrowing for capital and temporary cash flow purposes. Although set at a level that can be afforded, it would be expected that actual borrowing will not reach the authorised limit on a regular basis. To do so may represent an indication of a variation from underlying budgetary assumptions.

4. Operational boundary for external debt
The operational boundary is set at a level below the authorised limit, at a level that provides a realistic and credible warning of underlying variations from budgetary assumptions.

5. Gross debt and the CFR
Gross debt includes all external borrowing as well as outstanding liabilities in connection with PPP and finance leases. The CFR is calculated directly from the balance sheet and represents the underlying level of long-term debt required to finance the total value of past capital investment. Comparison of the CFR to external debt should ensure that, over the medium term, external borrowing is only used for capital purposes.

6. Ratio of financing costs to net revenue stream
An indicator of affordability that focuses on the extent to which the council's net budget is used for servicing debt, expressed as a percentage.

Treasury indicators

7. Maturity structure of borrowing – fixed and variable
These indicators are designed to be a control over large concentrations of fixed and variable rate debt needing to be replaced at times of uncertainty. The indicator is in effect a limit on longer term interest rate exposure and provides more transparency on the need and opportunities for debt rescheduling.

8. Upper limits on sums invested for periods of more than 365 days
This indicator sets limits on amounts that can be invested for a period of 1 year or more. The purpose is to limit exposure to the possibility of loss that may arise as a result of having to seek early redemption. In other words, it seeks to ensure that money is available when required and not tied up for lengthy periods.

Appendix 3

Permitted investments – Treasury investments

This council approves the following forms of investment instrument for use as permitted investments:

Investment instrument	**2018/19 investment limit £m**
1. Government backed deposits	
a) **Debt Management Agency Deposit Facility (DMADF)** This offers the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury. It is effectively an investment placed with the government. However, as it is low risk it also earns low rates of interest.	Unlimited
b) **Deposits with counterparties currently in receipt of government support / ownership** This provides another dimension of creditworthiness in terms of government backing through either direct (partial or full) ownership or the banking support package. This implies that the government will ensure the continuity of these institutions. As such, these investments are considered to offer a low and acceptable level of risk.	£50m
2. Local authorities or other public bodies These are seen as quasi UK Government debt and, as such, counterparty risk is considered very low.	£50m
3. Non-government backed deposits	
a) **Term deposits with high credit worthiness banks and building societies including amounts lodged with banks through an intermediary** This is the most widely used form of investing by this authority, whereby investments are made until a specified maturity date. It offers a much higher rate of return than the DMADF and the residual risks around using such banks and building societies are considered to be at a low and acceptable level.	£20m
b) **Call accounts with high credit worthiness banks and building societies** Similar to 3a above, only with instant access to recalling cash deposited. This may offer a lower rate of return than that which could be earned from the same institution by making a term deposit, however, still above the DMADF. Some use of call accounts is highly desirable to ensure liquidity requirements can be met.	£20m

4. Money Market Funds (MMFs) MMFs are AAA rated and offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. MMFs offer an effective way of minimising risk exposure while still achieving much better rates of return than available through the DMADF.	£20m
5. Government liquidity funds. These are very similar to MMFs but only invest in government debt issuance with highly rated governments. They offer a lower rate of return than MMFs but slightly higher than the returns from the DMADF.	£30m
6. Securities Issued or guaranteed by governments	
a) **Treasury bills** These are short-term bills (up to 12 months) issued by the government and so are backed by the sovereign rating of the UK. The return is higher than the DMADF and they can be sold if there is a need for access to cash at any point in time, although early sales could incur a net cost during the period of ownership.	£30m
b) **Gilts** These are longer-term debt issuance by the UK government and are backed by the sovereign rating of the UK. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity.	£30m

Treasury risks

All the investment instruments outlined above are subject to the following risks:

1. **Credit and counterparty risk**
   This is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's finances. There are no counterparties where this risk is zero although AAA rated organisations have a very high level of creditworthiness.

2. **Liquidity risk**
   This is the risk that instant access to cash will not be available when it is needed. Investments can range from being instant access to term, that is, money is locked in until an agreed maturity date. However, some forms of investment, for example, gilts can usually be sold immediately if the need arises.

3. **Market risk**
   This is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, in certain circumstances, exposure to market risk may be sought, with a view to obtaining a long-term increase in value. This applies to the investment of Sundry Trusts and the City Funds (Insurance Fund and Common Good Fund) managed by external fund managers.

4. **Interest rate risk**
   This is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in the Prudential Indicators within this report.

5. **Legal and regulatory risk**
   This is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The level of both risk exposure and liquidity influences the rate of return on investments. Generally the lower the risk or the higher the liquidity, the lower the rate of return.

Controls on treasury risks

1. **Credit and counterparty risk**
   The council has set minimum credit criteria to determine which counterparties and countries are of high creditworthiness to enable investments to be made safely.

2. **Liquidity risk**
   The council has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk**
   In respect of in-house managed investments, the council generally does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value. The authority may purchase treasury bills as their value does not vary much during their short life. Externally managed investments are subject to market risk, however, this is consistent with the longer-term view, afforded by the nature of the specific funds invested.

4. **Interest rate risk**
   The council manages this risk by having a view of the future course of interest rates and formulates a treasury management strategy accordingly. The strategy aims to minimise net interest costs, consistent with control of risk.

5. **Legal and regulatory risk**
   The council will not undertake any form of investing until it has ensured that it has necessary powers and also complied with all regulations.

Glasgow City Council

Counterparty investment criteria

Fitch rating (minimum)

Long-term	A and above (i.e. A+, AA-)
Short-term	F1

Moody's rating (minimum)

Long-term	A2 and above (i.e. A1, Aa3)
Short-term	P-1

Link Asset Services – Creditworthiness services overlay

A sophisticated modelling approach with credit ratings from all three rating agencies (Fitch, Moody's and Standard and Poor's) forming the core element, supplemented by Credit Default Swap (CDS) spreads, sovereign ratings and other market information, providing suggested duration of investments.

Credit methodology changes

Changes to credit rating methodology will be required as a result of the expected phasing out of implied levels of sovereign support, with 'support' ratings being effectively redundant.

Maximum investment limit

Refer to Appendix 3.

Maximum investment period

Based on Link Asset Services creditworthiness services suggested duration bands.

Appendix 5

Glasgow City Council

Counterparty investment list

Weekly credit list: Friday 04/01/2019					
	Fitch		**Moody's**		
	Long-term	Short-term	Long-term	Short-term	Suggested duration (CDS adjusted)
United Arab Emirates	**AA**		**Aa2**		
First Abu Dhabi Bank PJSC	AA-	F1+	Aa3	P-1	O
Australia	**AAA**		**Aaa**		
Australia and New Zealand Banking Group Ltd.	AA-	F1+	Aa3	P-1	O
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	O
Macquarie Bank Ltd.	A	F1	A2	P-1	R
National Australia Bank Ltd.	AA-	F1+	Aa3	P-1	O
Westpac Banking Corp.	AA-	F1+	Aa3	P-1	O
Belgium	**AA-**		**Aa3**		
BNP Paribas Fortis	A+	F1	A1	P-1	R
KBC Bank N.V.	A+	F1	Aa3	P-1	O
Canada	**AAA**		**Aaa**		
Bank of Montreal	AA-	F1+	Aa2	P-1	O
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	O
Canadian Imperial Bank of Commerce	AA-	F1+	Aa2	P-1	O
National Bank of Canada	A+	F1	Aa3	P-1	R
Royal Bank of Canada	AA	F1+	Aa2	P-1	O
Toronto-Dominion Bank	AA-	F1+	Aa1	P-1	O
Denmark	**AAA**		**Aaa**		
Danske A/S	A	F1	A2	P-1	R
Finland	**AA+**		**Aa1**		
Nordea Bank Abp	AA-	F1+	Aa3	P-1	O
France	**AA**		**Aa2**		
BNP Paribas	A+	F1	Aa3	P-1	O
Credit Agricole Corporate and Investment Bank	A+	F1	A1	P-1	O
Credit Agricole S.A.	A+	F1	A1	P-1	O
Credit Industriel et Commercial	A+	F1	Aa3	P-1	R
Societe Generale	A	F1	A1	P-1	R
Germany	**AAA**		**Aaa**		
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	AA-	F1+	Aa1	P-1	O
Landesbank Berlin AG			Aa2	P-1	O
Landesbank Hessen-Thueringen Girozentrale	A+	F1+	Aa3	P-1	O
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	P
NRW.BANK	AAA	F1+	Aa1	P-1	P
Netherlands	**AAA**		**Aaa**		
ABN AMRO Bank N.V.	A+	F1	A1	P-1	R
Bank Nederlandse Gemeenten N.V.	AA+	F1+	Aaa	P-1	P
Cooperatieve Rabobank U.A.	AA-	F1+	Aa3	P-1	O
ING Bank N.V.	A+	F1	Aa3	P-1	O
Nederlandse Waterschapsbank N.V.			Aaa	P-1	P
Qatar	**AA-**		**Aa3**		
Qatar National Bank	A+	F1	Aa3	P-1	R
Singapore	**AAA**		**Aaa**		
DBS Bank Ltd.	AA-	F1+	Aa1	P-1	O
Oversea-Chinese Banking Corp. Ltd.	AA-	F1+	Aa1	P-1	O
United Overseas Bank Ltd.	AA-	F1+	Aa1	P-1	O

Glasgow City Council

Counterparty investment list

Weekly credit list: Friday 04/01/2019					
	Fitch		**Moody's**		
	Long-term	Short-term	Long-term	Short-term	Suggested duration (CDS adjusted)
Sweden	**AAA**		**Aaa**		
Skandinaviska Enskilda Banken AB	AA-	F1+	Aa2	P-1	O
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	O
Swedbank AB	AA-	F1+	Aa2	P-1	O
Switzerland	**AAA**		**Aaa**		
Credit Suisse AG	A	F1	A1	P-1	R
UBS AG	AA-	F1+	Aa2	P-1	O
United Kingdom	**AA**		**Aa2**		
Abbey National Treasury Services PLC	A	F1	Aa3	P-1	R
Bank of Scotland PLC (RFB)	A+	F1	Aa3	P-1	O
Barclays Bank PLC (NRFB)	A+	F1	A2	P-1	R
Barclays Bank UK PLC (RFB)	A+	F1	A1	P-1	R
Close Brothers Ltd	A	F1	Aa3	P-1	R
Goldman Sachs International Bank	A	F1	A1	P-1	G
Handelsbanken Plc	AA	F1+			O
HSBC Bank PLC (NRFB)	AA-	F1+	Aa3	P-1	O
HSBC UK Bank Plc (RFB)	AA-	F1+			O
Lloyds Bank Corporate Markets Plc (NRFB)	A	F1	A1	P-1	R
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	O
Santander UK PLC	A+	F1	Aa3	P-1	R
Standard Chartered Bank	A+	F1	A1	P-1	R
Sumitomo Mitsui Banking Corporation Europe Ltd	A	F1	A1	P-1	R
UBS Ltd.	AA-	F1+	Aa3	P-1	O
Coventry Building Society	A	F1	A2	P-1	R
Nationwide Building Society	A	F1	Aa3	P-1	R
United States	**AAA**		**Aaa**		
Bank of America N.A.	AA-	F1+	Aa3	P-1	O
Bank of New York Mellon, The	AA	F1+	Aa1	P-1	P
Citibank N.A.	A+	F1	A1	P-1	O
JPMorgan Chase Bank N.A.	AA	F1+	Aa1	P-1	O
Wells Fargo Bank, NA	AA-	F1+	Aa1	P-1	O
Debt Management Office	**AA**		**Aa2**		Y
Government Supported/Owned Banks					
National Westminster Bank PLC (RFB)	A+	F1	A1	P-1	B
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	B

Notes:

1) RFB and NRFB refers to 'Ringfenced' and 'Non-ringfenced' banks
2) In addition to utilising Money Market Funds for investments, the council also currently utilises Handelsbanken Plc, Bank of Scotland and Royal Bank of Scotland for cash flow purposes

Key to suggested maximum investment periods:

Y (Yellow) - 60 months
P (Purple) - 24 months
B (Blue) - 12 months
O (Orange) - 12 months
R (Red) - 6 months
G (Green) - 3 months

Appendix 6

Treasury Management - Scheme of delegation

(i) Full Council

- approval of annual strategy

(ii) City Administration Committee

- approval of annual strategy, for approval by full council
- approval of/amendments to the treasury management policy statement and treasury management practices
- consider recommendations from Finance and Audit Scrutiny Committee

(iii) Finance and Audit Scrutiny Committee

- review the treasury management policy and procedures, and annual strategy, and make recommendations to the City Administration Committee
- consider mid-year review of treasury management strategy and performance, and annual report, and make recommendations to the City Administration Committee

Treasury Management - Role of the Section 95 officer

The S95 (responsible) officer has the following responsibilities:

- recommending treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management review reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.