Glasgow City Council

Executive Committee

Report by Councillor Paul Rooney, City Treasurer

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Item 3

7th March 2013

Treasury Management Strategy and Annual Investment Strategy 2013/14

Purpose of Report:

To advise members of the planned Treasury Management Strategy and Annual Investment Strategy to be adopted for 2013/14, and the Prudential and Treasury Indicators for 2012/13 to 2015/16.

This report was considered by the Finance and Audit Scrutiny Committee on 27 February 2013 when it was agreed to recommend approval.

Recommendations:

The Committee is asked to approve:

(a) the Treasury Management Strategy and Annual Investment Strategy for 2013/14; and
(b) the Prudential and Treasury Indicators for 2012/13 to 2015/16

Ward No(s): Citywide: ☒

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

Treasury Management Strategy and Annual Investment Statement 2013/14

Introduction

1. Treasury Management is defined 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. "

2. The Local Government in Scotland Act 2003 (the Act), and supporting regulations, requires the council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The council is therefore required to set out its Treasury Management Strategy for borrowing and prepare an Annual Investment Strategy, as required by Investment Guidance issued subsequent to the Act. The Annual Investment Strategy will outline the council's policies for managing its investments and for giving priority to the security and liquidity of those investments. Prudential and Treasury Indicators for the next three years will also be set out, to ensure that the council's capital investment plans are affordable, prudent and sustainable.

3. It is a statutory requirement under Section 93 of the Local Government Finance Act 1992 for the council to produce a balanced budget. In particular, the council must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Capital investment must be limited to a level whereby increases in charges to revenue in respect of debt charges and running costs from new capital projects are affordable within the projected funding levels of the council for the foreseeable future.

4. The adoption of the CIPFA Code of Practice on Treasury Management in Public Services (revised November 2009) was approved by the Executive Committee on 19 March 2010. In addition, an update report in respect of the establishment of a new regulatory framework for investments from 1 April 2010 was considered by the Finance and Audit Scrutiny Committee on 19 May 2010, highlighting the requirement to prepare an Annual Investment Strategy. The Treasury Management Strategy and Annual Investment Statement for 2013/14 has been prepared in accordance with the revised Code.

5. The Treasury Management Strategy and Annual Investment Statement 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 and investment strategy and performance.

6. The council's performance in this area is currently reported to the Finance and Audit Scrutiny Committee. However, it is considered appropriate for the Executive Committee to approve the strategy for the forthcoming financial

year. The Annual Strategy will, thereafter, be approved by the full Council, in line with the requirements of the Code.

7. The Council's capital investment plans and available reserve balances are integral to the treasury management and investment strategy. Capital investment will be monitored and treasury management activities will be undertaken throughout the year in accordance with the strategy. In addition, Prudential and Treasury Indicators form part of the integrated treasury management strategy, assisting with the management of treasury risks.

Summary

8. There are many areas covered within the Treasury Management Strategy, this summary highlights those areas where particular attention should be focused.

9. The United Kingdom (UK) was subject to a Sovereign Rating downgrade on Friday 22 February by Moody's Investors Service, one of the three recognised ratings agencies. In explaining its reasons for downgrade Moody's cited that the UK economy was expected to "remain sluggish over the next few years" and added that the Government's debt reduction programme faced significant "challenges" ahead. The agency deemed the outlook for the UK to be "stable" which indicates that the agency see little prospect of a further cut in the near term and added that "the UK's creditworthiness remains extremely high". Market reaction to this downgrade was minimal given that the markets have been aware of the possibility for some time and have built this possibility into their pricing.

10. Treasury management performance is included in paragraph 18 and this notes that the headline performance indicator for treasury management is the pooled interest rate which represents the rate of interest charged for capital advances. For 2013/14 this is estimated at 4.8% and the strategy moving forward is to minimise potential increases to this level.

11. Prudential indicators are covered in paragraph 21 and are shown in appendix 2. The Local Government Scotland Act 2003 requires the Council to set prudential indicators for the next 3 years to ensure the Council's capital investment plans are affordable, prudent and sustainable. The prudential indicators for 2013/14 to 2015/16 are detailed in appendix 2. In addition the prudential indicators for 2012/13 are included in appendix 2; these are included following their restatement as a result of a technical accounting change which has altered two of the indicators. In terms of the prudential indicators, indicator 2, the ratio of financing costs to net revenue stream, should be highlighted; this indicator shows the percentage that financing costs are of the total net expenditure of the Council. This indicator shows a 1% increase between 2012/13 to 2013/14 which is as a result of the removal of budgets for funding police and fire services from the Glasgow City Council budget.

12. The borrowing strategy is detailed in paragraphs 23 and 24 which outlines the differing types of borrowing available to the Council and factors to consider in relation to each type. The cheapest borrowing is internal borrowing which means utilising internal balances held to limit external borrowing. This has to be viewed in the context of forecasting use of internal funds alongside forecasts for external borrowing rates. In addition short term borrowing is cheaper than long term borrowing but cognisance must be given to long term interest rate forecasts to ensure longer term borrowing is sourced at the optimum time. The key principle of the borrowing strategy is to minimise debt interest costs over the medium term and to achieve an even spread in the debt maturity profile.

13. The investment policy is detailed in paragraphs 31 to 35. The key priorities of the investment strategy are security of capital, minimising the risk of any loss on the principal sum invested and liquidity of investments. The aim is to achieve the optimum return on investments commensurate with proper levels of security and liquidity requirements. The risk appetite of the Council is low in order to give priority to security of investments.

14. The limit of investments are set within the investment strategy and paragraph 33 notes the proposal to alter the specific investment limits currently in place. Appendix 3 shows the current and proposed limits. In terms of deposits with counterparties currently in receipt of government support/ownership the proposal is to double investment limits from £25m to £50m. In terms of non-government backed deposits, government liquidity funds and securities issued or guaranteed by government the proposal is to increase limits from £20m to £30m. In terms of Money Market Funds there is no proposal to alter the current limit of £20m. The proposed limits outlined will assist with day to day cash flow management as in practice there are often limited counterparties in the market on any given day following mergers and downgradings.

15. The creditworthiness policy is detailed in paragraphs 36 to 38, in terms of creditworthiness the Council will continue to limit exposure to credit risk with counterparties by ensuring investments are placed with the highest rated bodies from a weekly credit list of worldwide potential counterparties.

Treasury Management Strategy 2013/14

16. The Treasury Management Strategy is under-pinned by market forecasts of interest rates, provided by the council's treasury advisors. The strategy covers:

- Prudential and Treasury Indicators 2012/13 – 2015/16;
- the current treasury position;
- treasury management performance;
- the estimated borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;

- the policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- policy on use of external providers.

Current Treasury Position

17. A summary of the council's treasury portfolio as at 31 January 2013 is outlined in Appendix 1.

Treasury Management Performance

18. 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 2013/14 is estimated at 4.8%, based on the strategy set out in this paper. The strategy for 2014/15 and future years is to minimise potential increases to this level.

Estimated Borrowing Requirement

19. There is an estimated increase in borrowing requirement for 2013/14 of £100m, based on assumptions within the council's current capital investment plan. The Prudential Code states that net borrowing in 2013/14 should not exceed the 2012/13 capital financing requirement plus any estimated increase in capital financing requirement for the current and next two financial years. Given this flexibility, the Executive Director of Financial Services will continue to monitor the current economic and interest rate forecasts and seek to find the optimum funding solution for planned capital investment.

20. In addition, there will be a refinancing requirement in respect of loans maturing in 2013/14 (£71m), and also potential for a number of market loans to be recalled. There will also be further new borrowing in respect of any rescheduling opportunities that may arise, as set out in this paper.

Prudential and Treasury Indicators 2012/13 to 2015/16

21. The Local Government in Scotland Act 2003 requires the Council to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Indicators for 2013/14 to 2015/16 are outlined in Appendix 2. These indicators are relevant for the purpose of setting an integrated treasury management strategy. The treasury limits in force will assist with the management of treasury risks and activities of the council. In addition the Prudential and Treasury Indicators for 2012/13 are included in Appendix 2. These are included for Committee approval following their restatement as a result of a technical accounting change which has altered the Authorised Limit for External Debt and the Operational Boundary for External Debt. The

remaining indicators for 2012/13 have been updated for completeness but show no real movement from those detailed in the Treasury Management Update report presented to the Finance and Audit Scrutiny Committee on 7th November 2012.

Prospects for Interest Rates

22. The council's treasury advisor has provided the following view of probable interest rates for the financial year 2013/14.

(a) Long-term

Current 5, 10 and 50-year Public Works Loan Board (PWLB) rates are 1.83%, 2.93% and 4.24% respectively. The 5, 10 and 50-year PWLB rates are expected to marginally decrease during 2013/14 to 1.70%, 2.70%, and 4.10% respectively, with further steady increases throughout 2014/15 and 2015/16 to 2.90%, 3.90% and 5.20% respectively by the end of 2015/16.
These rates take account of the application of a 0.20% certainty rate reduction introduced by the Government, available to Council's in return for providing forecast information.

(b) Short-term

Short-term interest rates (Bank Rate, the official Bank of England rate paid on commercial bank reserves), currently at 0.50%, are expected to remain at 0.50% until the end of 2013/14, increase to 0.75% by the end of 2014/15 and 1.75% by the end of 2015/16, based on an expected rate of recovery from the recession.

Borrowing Strategy 2013/14

23. The Council's borrowing strategy will be based upon the following factors:

- The cheapest borrowing will be internal borrowing. 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 long term costs. This will be informed by council reserve and fund balance forecasts.

- Short term borrowing from the money markets or other local authorities is expected to be cheaper than long-term borrowing and will therefore be attractive throughout the financial year, compared to simply taking long-term fixed rate borrowing. 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. Delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher is likely to be more expensive over the longer term.

- PWLB variable rate loans may provide an opportunity to secure short term interest savings.

- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period, where available, will be considered. This will also assist with maintaining an appropriate balance between PWLB and market debt in the debt portfolio.

- Given that PWLB rates are expected to marginally decrease through to the end of 2012/13 before gradually increasing through 2013/14, consideration will be given to taking new fixed rate long term borrowing at the start of the year, in advance of actual expenditure being incurred. The investment return on these resources would be below the interest rate paid on new borrowing, resulting in a cost of carry, equivalent to the interest rate differential. Increased exposure to counterparty risk in terms of temporarily increasing investment cash balances also requires to be recognised. Nevertheless, this may be more cost effective over the longer term and also provides an element of budget certainty in respect of future years.

- 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. It is anticipated that such loans would command slightly higher interest rates, however, this requires to be offset against there being no cost of carry or investment risk.

- Under 5 year PWLB rates are expected to be substantially lower than longer term PWLB rates, offering a range of options for new borrowing, which will help spread debt maturities away from a concentration in long-dated debt.

- Stock and bond issues are an option, however, it is anticipated that this would require considerable set up resources and fees, which may limit their potential usefulness.

24. 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 Financial Services, in conjunction with the treasury advisors, will continually monitor interest rate forecasts and adopt a pragmatic approach to changing circumstances.

Policy on Borrowing in Advance of Need

25. 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 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.

Debt Rescheduling

26. The principle reasons for debt rescheduling include:

- the generation of cash savings at a minimum risk; and
- the enhancement of the balance of the debt maturity profile.

27. The introduction of a new PWLB rates structure on 1 November 2007, with different rates for new borrowing and early debt repayment, has meant that PWLB to PWLB debt rescheduling is less attractive. This has been compounded since 20 October 2010, with a considerable further widening of the rate differential. However, interest savings may also be achievable through the use of LOBOs (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises. Opportunities for debt rescheduling will be monitored on an ongoing basis throughout the year, with rescheduling undertaken if benefits were to accrue.

28. There could be opportunities to generate interest savings by switching from long-term to short-term debt, given that short-term borrowing rates are expected to be considerably less than longer-term rates. However, these savings will need to be considered in the light of their short-term nature and the likely cost of re-financing those short-term loans on maturity, if required.

29. In the past, borrowing has been skewed towards longer dated PWLB debt. Switching from long-term to short-term debt will also help to redress the balance of the debt maturity profile. Redressing the balance of the debt maturity profile will mitigate the risk of re-financing at a higher rate of interest in any year in the future.

30. Consideration will also be given to the potential for making savings by reducing investment balances to repaying debt prematurely, as short-term rates on investments are likely to be lower than rates paid on currently held

debt. However, this will need careful consideration in the light of premiums that may be incurred by such course of action.

Annual Investment Strategy

Investment Policy

31. The council will have regard to the Local Government Investment (Scotland) Regulations 2010 and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice. The key priorities of the strategy will be security of capital, minimising the risk of any loss on the principal sum invested, and liquidity of investments. The council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity requirements. The risk appetite of the council will be low in order to give priority to security of investments.

32. The borrowing of monies purely to invest or on-lend and make a return is unlawful and this 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 cashflow requirements. Investments will be managed both internally and externally, with external fund managers managing the investment of specific fund balances.

33. In respect of internally managed investments it is proposed to alter the specific investment limits currently in place. Investment instruments identified for use in the financial year, together with specific investment limits, are listed in appendix 3 showing current and proposed limits. Treasury risks associated with investments and the control of such risks are also outlined.

34. The proposed increased limits outlined at Appendix 3 will assist with day to day cash flow management, as in practice, there are often limited numbers of counterparties in the market on any given day, particularly following a number of bank mergers and rating downgrades. A suitable spread of investments across counterparties and countries will be sought, in order to avoid a concentration of investments with too few counterparties or countries.

35. 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.

Creditworthiness Policy

36. 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 overlayed by the creditworthiness service provided by its treasury advisors. This service uses a sophisticated modelling approach,

with credit ratings from all three rating agencies (Fitch, Moody's, Standard and Poors) forming the core element. However, the following factors are also taken into account:

- Credit watches and credit outlooks from credit agencies
- Credit Default Swap (CDS) spreads, to give early warning of likely changes in credit ratings (CDS spreads are based on information from the insurance sector and provide a timely indication of how the market views financial institutions in terms of credit worthiness)
- Sovereign ratings, to select counterparties from only the most creditworthy countries

The relative creditworthiness of counterparties is indicated by a colour code, which also determines the duration of investments.

37. The Council will continue to limit exposure to credit risk by ensuring that investments are placed with the highest rated bodies from a weekly credit list of worldwide potential counterparties. The investment criteria to be adopted from 1 April 2013 is outlined in Appendix 4, while a sample credit list on this basis as at 8 February 2013 is given in Appendix 5, for illustration purposes.

38. 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 Sector 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.

Investment Strategy

39. The council's in-house managed investments are mainly derived from day to day cash flow management, however, this may extend to surplus funds arising from borrowing in advance, in line with the borrowing strategy outlined within this report. Investments will accordingly be made with reference to cashflow requirements and capital expenditure forecasts, and the outlook for interest rates.

40. Bank Rate has been unchanged at 0.50% since March 2009. It is expected to remain at 0.50% to the end of 2013/14, increase to 0.75% by the end of 2014/15 and 1.75% by the end of 2015/16. Given that investment rates are down at historically low levels, the council will avoid locking into longer term deals unless attractive rates are available with counterparties of particularly high creditworthiness, which make longer term deals worthwhile and within the risk parameters set by the council.

41. For its cash flow generated balances, the council will seek to utilise its business reserve accounts, 30 day notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

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42. In addition to internally managed investments, externally managed investments are currently held in respect of the Insurance Fund and on behalf of the Common Good Fund and Sundry Trusts. These funds are all invested on a longer term basis. Investments in respect of the Insurance Fund and Common Good Fund are currently held with investment brokers Ruffer Limited Liability Partnership, while investments in respect of Sundry Trusts are held with Standard Life Investments. Performance in respect of these investments is reported regularly to the Executive Director of Financial Services. A review is currently being undertaken respect of these externally managed funds to ensure continued optimum performance. The Sundry Trusts investments will be subject to a tendering exercise to ensure the newly created trusts are managed in the most economically beneficial environment. Any changes to the current management of these resources will be reported by the Executive Director of Financial Services.

43. The Executive Director of Financial Services 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 2013/14 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.

Non-Treasury Investments

44. Non-treasury investments are defined as the following categories:

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

45. The council currently holds shares in a number of companies. It is the principal shareholder in SEC 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 (Glasgow) Limited Liability Partnership, City Building (Contracts) Limited Liability Partnership, City Parking (Glasgow) Limited Liability Partnership, Cordia (Care) Limited Liability Partnership, Cordia (Services) Limited Liability Partnership, and City Property Glasgow (Investments) Limited Liability Partnership, holding 99.99% of the ordinary capital of each partnership.

46. The authority currently has no loans to local authority companies. Any such loans would be subject to specific committee approval.

47. 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.

48. 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.

49. The level of investment property held by the authority has greatly reduced subsequent to the transfer of such assets to City Property LLP on 31 March 2010. The value of residual investment property held as at 31 March 2012 was £0.8m. These assets are held for the purpose of rental income generation and are managed by City Property LLP on behalf of the council. The asset management plan for surplus property including iconic buildings will form one strand of the Council's Strategic Asset Management Plan. The first draft of this corporate plan will be produced by the end of the 12/13 year. The rental generating property will continue to be managed to maximise the return to the Council.

Policy on the use of External Providers

50. The council uses Sector as its external treasury management advisers. 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.

Scheme of Delegation and Role of the Section 95 Officer

51. 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.

Council Strategic Plan Implications

52. The council strategic plan implications are noted below:

Economic Impact:	None
Sustainability:	None

Financial:	The financial implications of this report are reflected in the revenue estimates for 2013/14.
Legal:	None
Personnel:	None
Sustainable Procurement and Article 19:	None

Recommendations

53. The Committee is asked to approve:

    a) the Treasury Management Strategy and Annual Investment Strategy for 2013/14; and
    b) the Prudential and Treasury Indicators for 2012/13 to 2015/16

Appendix 1

Glasgow City Council

Treasury Portfolio Position

	Principal 31/1/13 £ 000's	Annual Average Interest Rate
Fixed Rate Funding		
Public Works Loan Board	887,074	
Market Loans	110,000	
	997,074	5.40%
Variable Rate Funding		
Public Works Loan Board	71,000	
Market Loans	473,322	
	544,322	3.28%
Gross Debt	**1,541,395**	**4.65%**
Investments		
Internally Managed:		
Various Counterparties	75,495	1.32%
	Market Value 31/12/12 £ 000's	
Externally Managed:		
Ruffer	31,419	5.46%
Standard Life	12,207	9.92%
	43,626	
Total Investments	**119,121**	**3.29%**
Net Debt	**1,422,274**	

Notes

The value of total debt outstanding as at 31/1/13 includes £34.216m in respect of loans administered by Glasgow City Council on behalf of Strathclyde Police whose debt is managed by Glasgow City Council.
Following the creation of the Scottish Police Authority (SPA) on 1/4/13 this Strathclyde Police debt will remain with Glasgow City Council to be managed on behalf of SPA. The costs of managing this debt will be fully reimbursed to GCC by the SPA.

The authority also holds Local Bonds and Stock totalling £8k and £9k respectively.

Glasgow City Council

Prudential and Treasury Indicators 2012/13 - 2015/16

2012/13 - 2015/16 Estimates

2012/13 Estimate				2013/14 Estimate		2014/15 Estimate		2015/16 Estimate	
			Prudential Indicators						
£m				£m		£m		£m	
233		1)	Capital Expenditure	236		157		120	
%		2)	Ratio of Financing Costs to Net Revenue	%		%		%	
12.80%			Stream	13.90%		13.90%		14.10%	
£m		3)	Net Borrowing Requirement	£m		£m		£m	
1,450			brought forward 1 April	1,520		1,620		1,610	
1,520			carried forward 31 March	1,620		1,610		1,590	
70			in year borrowing requirement	100		-10		-20	
£m		4)	Capital Financing Requirement	£m		£m		£m	
1,550			brought forward 1 April	1,610		1,710		1,710	
1,610			carried forward 31 March	1,710		1,710		1,690	
60			in year movement	100		0		-20	
£m		5)	Net Borrowing Less the Capital Financing	£m		£m		£m	
-90			Requirement at 31 March	-90		-100		-100	
No Impact on Council Tax		6)	Incremental Impact of Capital Investment Decisions on the Council Tax	No Impact on Council Tax		No Impact on Council Tax		No Impact on Council Tax	
			Treasury Management Indicators						
£1,950m		7)	Authorised Limit for External Debt	£2,050m		£2,050m		£2,000m	
£1,850m		8)	Operational Boundary for External Debt	£1,950m		£1,950m		£1,900m	
100%		9)	Upper Limit on Fixed Interest Rate Exposure	100%		100%		100%	
40%		10)	Upper Limit on Variable Interest Rate Exposure	40%		40%		40%	
Upper	Lower	11)	Maturity Structure of Fixed Rate Borrowing	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%
£100m		12)	Upper Limit on Principal Sums Invested for over 364 days (per maturity date)	£100m		£100m		£100m	

Appendix 3

Permitted Investments – Treasury Investments

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

Investment Instrument	**2012/13 Investment Limit £m**	**2013/14 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	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.	£25m	£50m
2. Non-Government Backed Deposits		
a) **Term deposits with high credit worthiness banks and building societies.** 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	£30m
b) **Call accounts with high credit worthiness banks and building societies.** Similar to 2a 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	£30m
3. 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	£20m
4. 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.	£20m	£30m
5. Securities Issued or Guaranteed by Government		
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.	£20m	£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.	£20m	£30m

Treasury Risks

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

1. **Credit and counter-party 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 the Insurance Fund and on behalf of Sundry Trust and Common Good Fund balances with 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 its Treasury Indicators in 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 counter-party risk.** This authority 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.** This authority 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, this authority 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, however, 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**. This authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to minimise net interest costs, consistent with control of risk.

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

Glasgow City Council

Investment Criteria

Fitch Rating (Minimum)

Long Term	AA- and above (i.e. AA,AA+, AAA-)
Short Term	F1+
Support	3 (+)

Moody's Rating (Minimum)

Long Term	Aa3 and above (i.e. Aa2, Aa1)
Short Term	P-1

Sector Credit Worthiness Service Overlay

A sophisticated modelling approach with credit ratings from all three rating agencies (Fitch, Moody's and Standard and Poors) forming the core element, supplemented by CDS spreads, sovereign ratings and other market information

Maximum Investment Limit

£50,000,000

Maximum Investment Period

Based on Sector Credit Worthiness Service durational bandings

Glasgow City Council

Counterparty Investment List

Weekly Credit List: Friday 8/2/13					
	Fitch			**Suggested Duration (Watch/ Outlook Adjusted)**	**Suggested Duration (CDS Adjusted)**
	L Term	S Term	Support		
Australia	**AAA**				
Australia and New Zealand Banking Group Ltd	AA-	F1+	1	**O**	**G**
Commonwealth Bank of Australia	AA-	F1+	1	**O**	**G**
National Australia Bank Ltd	AA-	F1+	1	**O**	**G**
Westpac Banking Corporation	AA-	F1+	1	**O**	**G**
Canada	**AAA**				
Bank of Montreal	AA-	F1+	1	**O**	**G**
Bank of Nova Scotia	AA-	F1+	1	**P**	**G**
Canadian Imperial Bank of Commerce	AA-	F1+	1	**O**	**G**
Royal Bank of Canada	AA	F1+	1	**P**	**G**
Toronto Dominion Bank	AA-	F1+	1	**P**	**G**
Finland	**AAA**				
Nordea Bank Finland plc	AA-	F1+	1	**O**	**G**
Germany	**AAA**				
Landwirtschaftliche Rentenbank	AAA	F1+	1	**O**	**G**
Hong Kong	**AA+**				
Hong Kong and Shanghai Banking Corporation Ltd	AA-	F1+	1	**P**	**G**
Netherlands	**AAA**				
Bank Nederlandse Gemeenten	AAA	F1+	1	**P**	**G**
Cooperatieve Centrale Raiffeisen Boerenleenbank BA	AA	F1+	1	**P**	**G**
Singapore	**AAA**				
DBS Bank Ltd	AA-	F1+	1	**P**	**G**
Oversea Chinese Banking Corporation Ltd	AA-	F1+	1	**P**	**G**
United Overseas Bank Ltd	AA-	F1+	1	**P**	**G**
Sweden	**AAA**				
Nordea Bank AB	AA-	F1+	1	**O**	**G**
Svenska Handelsbanken AB	AA-	F1+	1	**O**	**G**
U.A.E					
National Bank of Abu Dhabi	AA-	F1+	1	**R**	**G**
U.K	**AAA**				
HSBC Bank plc	AA	F1+	1	**O**	**G**
U.S.A	**AAA**				
Bank of New York Mellon, The	AA-	F1+	1	**P**	**G**
Wells Fargo Bank NA	AA-	F1+	1	**O**	**G**
Supranational Institutions					
European Community	AAA	F1+	-	**P**	**No Data Available**
European Investment Bank	AAA	F1+	-	**P**	**No Data Available**
Government Supported/Owned Banks					
Bank of Scotland Plc	A	F1	1	**B**	**Not Applicable**
Lloyds TSB Bank Plc	A	F1	1	**B**	**Not Applicable**

Appendix 5

Glasgow City Council

Counterparty Investment List

Weekly Credit List: Friday 8/2/13					
	Fitch			**Suggested Duration (Watch/ Outlook Adjusted)**	**Suggested Duration (CDS Adjusted)**
	L Term	S Term	Support		
National Westminster Bank Plc	A	F1	1	**B**	**Not Applicable**
The Royal Bank of Scotland Plc	A	F1	1	**B**	**Not Applicable**

Key to suggested maximum investment periods

P (Purple) - 24 months
B (Blue) - 12 months

Appendix 6

Treasury Management Scheme of Delegation

(i) Full Council

- approval of annual strategy

(ii) Executive 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 Executive Committee
- consider mid year review of treasury management strategy and performance, and annual report, and make recommendations to the Executive 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.