Agenda Item 16

Treasury Management Strategy 2017/18

Agenda Item 16

FALKIRK COUNCIL

Subject: **Treasury Management Strategy 2017/18**
Meeting: **Executive**
Date: **21 March 2017**
Author: **Director of Corporate & Housing Services**

1. Purpose of Report

1.1 The Code of Practice for Treasury Management requires that an Annual Strategy Report be prepared and submitted to the Executive for consideration prior to being recommended to Council for approval. The purpose of this report is to comply with this requirement and outline the framework for the expected treasury activities for 2017/18.

2. Recommendations

2.1 Executive agree the report is referred to Council for consideration.

2.2 Executive recommends that Council:

1) adopts the Borrowing Strategy for 2017/18 as set out in section 4.2 of this report

2) adopts the Investment Strategy for 2017/18 and approves the list of "Permitted Investments" as set out in section 4.3 of this report

3) approves the Treasury Indicators as set out in section 4.5 of this report

3. Background

3.1 This report is the first of three Treasury Management reports to Members during the course of the year. This report outlines the framework for Treasury Management activities in 2017/18. Thereafter an Interim Review report will be submitted to Members by 31 December 2017. The Interim Review report provides an update on the progress of Treasury Management activities during the course of the year. The final Annual Review report will be submitted to the Executive by 30 June 2018 and will advise Members of the final position in relation to Treasury Management activities during 2017/18.

4. Considerations

4.1 Economic and Interest Rate Outlook

4.1.1 The European Central Bank (ECB) extended its programme of quantitative easing from March 2017 to December 2017 in a continuing attempt to boost economic growth. Although this has resulted in an increase in growth, indications are that growth in the Eurozone is likely to continue at moderate levels.

4.1.2 In terms of the sovereign debt crisis, Greece continues to cause stress in the European Union (EU). Talks between Greek officials, the EU and the International Monetary Fund (IMF) took place in February 2017. These talks focused on the economic reforms which Greece has to make e.g. tax increases, in order to get the bailout funds it requires in July 2017. Failure to secure these funds could lead to a potential exit from the Eurozone this summer. In addition pending elections in the Netherlands, France and Germany coupled with the inconclusive general elections in Spain, all add to the challenges facing the EU.

4.1.3 The USA, following strong economic growth and rising employment increased interest rates from 0.5% to 0.75% in December 2016. This is only the second increase in a decade, however going forward it is expected that the economy will only need gradual increases in the short term. USA GDP for 2016 was 1.6%, which is less than the 2015 growth figure of 2.6%. President Donald Trump has promised to increase GDP to 4% through tax cuts and infrastructure spending, but only time will tell if this is achievable.

4.1.4 UK GDP growth estimates for the last quarter of 2016 were revised upwards from 0.6% to 0.7% primarily due to strong consumer spending together with robust growth in the output of the services sector. However estimated GDP for the full year has been revised downwards from 2% to 1.8% largely due to weaker North Sea oil and gas production in the first six months of 2016 and the uncertainty surrounding Brexit. Growth of 2% is forecast for 2017. Unemployment currently stands at an eleven year low of 4.8% whilst inflation is standing at 1.9% and is expected to increase to 2.8% in 2018 before falling back gradually to 2.4% in three years' time. The Bank of England target rate remains at 2%.

4.1.5 The bank base rate was reduced from 0.5% to 0.25% in August 2016 following the results of the EU referendum. Initial expectations were that it would reduce further in November 2016, but this did not materialise and is forecast to remain at this level until June 2019 when an increase back up to 0.5% is expected. Public Works Loan Board (PWLB) rates have been experiencing exceptional levels of volatility and it's likely that this volatility could continue for the foreseeable future, not least of all because of the uncertainty over the final terms of Brexit and the timetable for its implementation. However in the longer term, it is expected that gilt yields and therefore PWLB rates will rise, as shown in the table below. This information has been provided by Capita Asset Services, the Council's Treasury advisers.

Annual Average %	Bank Rate	MONEY RATES		PWLB RATES			
		3 Mths	1Yr	5Yr	10Yr	25Yr	50Yr
2016/17	0.33	0.32	0.84	1.37	2.01	2.73	2.50
2017/18	0.25	0.30	0.70	1.60	2.30	2.93	2.73
2018/19	0.25	0.33	0.80	1.73	2.38	3.05	2.85
2019/20	0.50	0.65	1.15	1.90	2.55	3.25	3.05

4.2 Borrowing Strategy

4.2.1 There remains uncertainty over the timing of future interest rate increases but it is anticipated that the trends in both short term and longer term interest rates, as outlined in paragraph 4.1.5, are considered to be the most probable outcome.

4.2.2 The longer term borrowing requirement is c£59m (see paragraph 4.2.5). The next few years indicate a significant interest rate differential in favour of short term rates; however, the complete range of borrowing periods will be reviewed as we need to borrow.

4.2.3 Previous Strategy reports to Members have outlined the Council's under-borrowed position and the reduction of this on a gradual and managed basis. Consequently, the budgeted borrowing requirements of c£59.0m per paragraph 4.2.5 may still be required regardless of any slippage on the 2017/18 capital programme.

4.2.4 The Council's estimated debt position at 01/04/17 is:

	£'m	% of Total Debt
LONGER TERM FUNDING		
- Maturing loans in 2017/18	-	-
- Loans with Maturity > 1 year	212.6	87.0%
	212.6	
SHORT TERM FUNDING	31.0	13.0%
TOTAL ESTIMATED DEBT	**243.6**	**100.0%**

4.2.5 The expected longer term borrowing requirement for 2017/18 is £59.4m, as set out below:

	£'m
Capital Programme (net of capital receipts)	42.0
Service Payments	(13.6)
Replacement of Short-Term Borrowing	31.0
TOTAL LONGER TERM BORROWING REQUIREMENT	59.4

4.2.6 The above figure includes £4.8m borrowing for TIF projects. The total TIF project costs equate to £5.6m with £0.8m being funded by non-domestic rate income and the balance by borrowing.

4.2.7 The replacement of short term borrowing shown in the table above refers to £31m of short term debt that matures in 2017/18. These loans may be replaced on a short term or long term basis depending on cash flow requirements and prevailing interest rates.

4.2.8 The total value of Market Loans is £26m. It should be noted that there is potential for £13m of these Market Loans to be repaid during the year should any of the lenders invoke a rate change clause as per their individual contracts. Barclays advised in June 2016, that they were waiving their right to change the applicable interest rates for the £13m of loans held by them. Given the current level of interest rates, the risk of early repayment of any of the remaining loans is assessed as low.

4.2.9 The Council's main source for longer term funding remains the PWLB from which it can access all of its borrowing requirement or alternatively funding can be accessed through the London Money Market. The PWLB has extended the "PWLB Certainty Rate" by a further year. This facility enables local authorities to access discounted PWLB borrowing. Falkirk Council's application for this facility has been approved. The Council will also consider loans from other banks and financial institutions if more advantageous terms can be secured.

4.2.10 Previous Strategy Reports advised Members that the UK Government announced plans to abolish the Public Works Loan Board and transfer its lending function to another body using powers set out in the Public Bodies Act 2011. A consultation document was issued in May 2016 seeking views on proposals to modernise the governance arrangements of central government lending to local authorities. The consultation closed on 3 August 2016 with the majority of respondents agreeing that the PWLB should be abolished and its powers transferred to the Treasury. The abolition of the PWLB will have no impact on central government's capacity to lend to local authorities and it will simply be arranged through another body. The government now plans to lay before parliament a draft Order to implement these changes. Members will be advised of progress in future Strategy reports.

4.3 Investment Strategy

4.3.1 The regulatory framework provides greater autonomy for local authorities but makes clear that the onus is on local authorities to act prudently with regard to their investment and treasury management activities. The primary objectives of the Council's investment strategy is first and foremost to ensure timeous and full repayment of principal and interest, then securing adequate liquidity of funds invested and finally optimising investment returns consistent with those counterparty risks.

4.3.2 The Report provides details of the counterparties that the Council engages with in terms of its investments (See Appendix 2). In order to assess counterparty risk prior to investing, the Council makes use of credit rating information for specific institutions as published by the three credit rating agencies, Fitch, Moody's and Standard and Poors. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The lending criterion for 2017/18 has been reviewed to ensure it is robust enough to enable the Council to manage its investments effectively.

4.3.3 The Local Government Investments (Scotland) Regulations 2010 requires Council approval of all the types of investments, known as "Permitted Investments", to be used and set limits, where appropriate, for the amount and period that can be held in each type of investment.

4.3.4 The Permitted Investments which may be used in the forthcoming year are:

- CASH TYPE INSTRUMENTS
    - Deposits with other local authorities
    - Deposits with UK Government including Deposits with the Debt Management Account Facility (DMADF), treasury bills and gilts
    - Instant Access or On-Notice deposit accounts with financial institutions (banks and building societies)
    - Term deposits with financial institutions (banks and building societies)
    - Money Market Funds

- OTHER INVESTMENTS
    - Investment Properties (none currently held by the Council)
    - Shareholdings in a local authority company (refer Appendix 1)
    - Loans to third parties, including soft loans (refer Appendix 3)
    - Loans to a local authority company (none currently held by the Council)
    - Non-local authority shareholdings (refer to Appendix 1)

4.3.5 The Investment Regulations also require the investment position of the Common Good fund(s) to be made explicit. Surplus funds are invested in the Council's loans fund on which interest is earned. There is also a property asset (Kilns House) which attracts a rental yield.

4.3.6 The Council currently invests monies with three government backed Money Market Funds (MMFs). The yield from these funds is very low to the extent that the interest rate for the Fund we have with JP Morgan has recently reduced to zero. The Strategy does not stipulate that the MMF must be government backed; only that it is AAA rated. Officers are now engaging with our Treasury Advisers to select other suitable Funds which meet our credit criteria, offer superior yields to the government backed MMFs, but critically still ensure that security of the principal sums invested is safeguarded.

4.3.7 Details, as appropriate, of the risks, mitigating controls and limits associated with each of the Permitted Investments are attached at Appendix 1.

4.3.8 For permitted cash type investments, the Council maintains a counterparty list in compliance with the relevant counterparty selection criteria. Appropriate extracts from the Council's Treasury Management Practices (TMPs) are attached for Members' information at Appendix 2.

4.3.9 The Regulations make clear that the Council must not borrow more, or in advance of its capital financing requirement as determined under the Prudential Code purely to profit from the investment of the extra sums borrowed. It is confirmed that the Council has no plans to borrow in advance of need in the forthcoming financial year.

4.4 Banking Contract

4.4.1 The Council's Banking contract will be retendered during 2017/18 with an effective start date of 1 April 2018. Finance officers will shortly be engaging with the Central Purchasing Unit with a view to arranging a full OJEU tender process. Members should note that depending on the tender submissions, there is the potential for banking services to be transferred to another provider. Future Strategy reports will provide Members with an update on progress of this process.

4.5 Treasury Indicators

4.5.1 The Code requires that a number of treasury indicators are incorporated within this Strategy Report. The purpose of the indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

4.5.2 Members are asked to approve the undernoted Treasury indicators:

	2017/18 Upper	2018/19 Upper	2019/20 Upper
1) INTEREST RATE EXPOSURE			
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
2) MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2017/18			
	LOWER	**UPPER**	
	%	%	
Under 12 months	0	20	
12 months – 2 years	0	20	
2 years – 5 years	0	30	
5 years – 10 years	0	30	
10 years – 20 years	0	40	
20 years – 30 years	0	40	
30 years – 40 years	0	40	
40 years – 50 years	0	40	
3) MAXIMUM PRINCIPAL SUMS INVESTED > 364 DAYS The Council does not envisage having sums available for investment for periods longer than 364 days.			

4.6 Prudential Code

4.6.1 CIPFA is to review its Prudential Code and capital framework; the last time it was reviewed was five years ago. CIPFA is in the process of finalising a consultation to be issued early in the next month and will look at whether the code is still relevant and whether it needs to change to cover new issues affecting organisations. Members will be provided with updates in future Strategy Reports.

4.7 Treasury Management Advisers

4.7.1 The Council has appointed Capita Asset Services as its treasury management advisers. The contract is subject to regular review and comprises:

- Technical support on treasury and capital finance issues
- Economic and interest rate analysis
- Advice on debt rescheduling
- Borrowing and investment advice on interest rates, timing and financial instruments
- Credit ratings/market information service accessing the three main credit rating agencies

4.7.2 It is important to recognise under the terms of the revised Code, that regardless of the input from Capita, the final decision on treasury matters always rests with the Council.

4.7.3 Capita plc has recently announced their intention to sell Capita Asset Services. The rationale behind this decision is that Capita Asset Services does not meet with Capita's strategy of focussing on technology enabled outsourcing solutions. Capita Asset Services have advised that there will be no impact on the dealings we currently have with them. Going forward they are confident that their industry expertise will allow them continue to deliver the specialist service that they currently do regardless of the outcome of the sale. The sale process has only just begun, the outcome of which will not be known for some time. Members will be updated in due course.

4.7.4 The Council's current two year contract with Capita Asset Services expires on 31 March 2017. Finance officers will shortly be engaging with the Central Purchasing Unit to discuss this issue further.

4.8 Loans Fund Review

4.8.1 Previous Strategy reports advised Members that as a consequence of Scottish Government's review of local authority borrowing, The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. A key requirement of these new regulations is the provision of additional disclosures in relation to loans Loans Fund Accountings. Details of the additional disclosures required are as follows:

- Explanation of the Loans Fund
- The policy for determining the repayment for loans fund advances.
- An analysis of the movement in Loans Fund Advances
- A profile of future Loans Fund Repayments
- Separate disclosure for Housing Revenue Account (HRA)
- An explanation for any changes to Loans Fund Repayment profile.

4.8.2 Every local authority in Scotland as required by The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, has to operate a loans fund. This is unique to Scotland and is not required in the rest of the UK. The loans fund acts as an internal bank for the Council. The loans fund also provides the long term financing that the Council needs in respect of capital expenditure.

4.8.3 Under the 2016 regulations, the Council is required to set out its method 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. The Council's method is as follows:

- All historic loans fund advances made up to 31 March 2017, will continue to be repaid on the existing repayment basis i.e. annuity method.
- All loans fund advances made during 2017/18 will be repaid using the annuity method with a repayment term which is commensurate with the benefits of asset to which the advance relates.

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4.8.4 An analysis of the loans fund advances together with a profile of future loans fund repayments is detailed in Appendix 4. This information has been separately shown for General Fund, HRA and TIF. Specific details have been provided for 2016/17 and 2017/18 and thereafter shown in bands of years. Note that the advances for 2017/18 includes 2016/17 slippage/rescheduled projects as well as those included in the approved 2017/18 Capital Programmes. There have been no changes to the repayment profile of any loans fund advances.

4.9 Markets in Financial Instruments Directive II (MiFID II)

4.9.1 The Markets in Financial Instruments Directive II (MiFID II) comes into effect in January 2018. This is being implemented by the Financial Conduct Authority (FCA) and relates to local authority treasury management activities with banks and other financial institutions. Specifically it classifies local authorities as retail clients, which could restrict their treasury management activities. The European Securities & Markets Authority (ESMA) issued a consultation paper with the closing date for responses being 5 January 2017. The consultation will consider various options, one of which could potentially see local authorities "opt up" to professional client status, thereby removing any restrictions.

4.9.2 We have been liaising with our Treasury Advisers who have advised that should the option to "opt up" to professional status be implemented by the FCA, then the impact on Falkirk Council should be minimal. We would therefore be able to continue to interact with brokers, firms and financial institutions in much the same way as is currently the case. Members will be advised of progress in future Strategy reports.

4.10 Member/Officer Training

4.10.1 Consistent with the requirements of the Investment Regulations and the increased Member consideration of treasury management issues, the Chief Finance Officer has to ensure that those tasked with such responsibilities have access to training relevant to their needs and responsibilities. In addition, the Executive approved that training for all Members should be mandatory before they are eligible to serve on the Executive, Scrutiny or Audit Committees. Future training sessions will be scheduled to ensure that Members are fully aware of their scrutiny role, particularly following the local elections in May 2017.

4.10.2 There is a requirement under the Treasury Management Practices (TMPs), that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. This is achieved by in-house training supplemented by staff attending training courses/seminars organised by the Council's Treasury Advisers or other institutions in the field of Treasury Management or CIPFA (Scotland) Treasury Management Forum.

5. Consultation

5.1. There is no requirement to carry out a consultation on this report.

6. Implications

Financial

6.1 Assumptions made on both borrowing and investment is an integral part of the Revenue Budget setting process. As such the Revenue Budget and Capital Programmes for both General Fund and Housing reflect the financial consequences of the proposed Borrowing and Investment Strategies within this report.

Resources

6.2 A significant amount of staff time will be required in relation to the Banking contract which is to be retendered during 2017/18. If the provider changes as a result of the tender process, then significant staff input will be required throughout the Council to ensure a smooth and timely transition between providers.

Legal

6.3 There are no legal implications arising from the report recommendations.

Risk

6.4 Although interest rate assumptions are considered after discussion with Capita, the Council's treasury advisers, there is always the risk that they could change, which could impact on the level of interest payable by the Council.

6.5 In terms of investments, the Council engages with a number of counterparties who meet the minimum rating criteria with at least one of the three credit rating agencies. There is a risk that some counterparties will fall below this minimum criteria which would limit the number of available counterparties to the Council.

Equalities

6.6 An equality and poverty impact assessment was not required**.**

Sustainability/Environmental Impact

6.7 A sustainable assessment was not required.

7. Conclusion

7.1 It is largely accepted that interest rates will rise but there is still uncertainty over the timing and extent of such rises. The prospects for both short term and longer term interest rates will clearly be influenced by future inflationary expectations, the pace of the economic recovery both of which will undoubtedly be impacted on by Brexit. A mid-year review of the treasury management function will be submitted to Members by 31 December as required by the Regulations.

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Appendices
Appendix 1 – Falkirk Council Permitted Investments, Associated Controls and Limits
Appendix 2 – Credit & Counterparty Policies
Appendix 3 – Third Party Loans
Appendix 4 – Loans Fund Advances & Repayments

List of Background Papers
Capita Asset Services Interest Rate Forecast

APPENDIX 1

FALKIRK COUNCIL PERMITTED INVESTMENTS, ASSOCIATED CONTROLS AND LIMITS

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
(a) Deposits with other local authorities or public bodies **(very low risk)**	These are considered quasi UK Government debt and as such there is no risk to value. Deposits will be for a fixed term and liquidity may therefore present a problem as deposits can only be broken with the agreement of the counterparty and penalties can apply. Deposits with other non local authority bodies will be restricted to the overall credit rating criteria. Non local authority deposits will follow the approved crediting rating criteria	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. .	£5m per LA and maximum 9 months
(b) Deposits with the Debt Management Account Facility (UK Government) **(very low risk)**	This is a deposit with the UK Government and as such there is no risk to value. Deposits can be between overnight and 6 months and liquidity may therefore present a problem as deposits can only be broken with the agreement of the counterparty and penalties can apply. .	Little mitigating controls required. As this is a UK Government investment, the monetary limit is unlimited to allow for a safe haven for investments.	£unlimited, maximum 6 months
(c) Money Market Funds (MMFs) **(very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMFs have a “AAA” rated status from all of Fitch, Moody’s or Standard & Poors.	£5m per fund and on Call

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
(d) Instant Access or On-Notice deposit accounts with financial institutions (banks and building societies) **(low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. There is little risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard & Poors. On day to day investment dealing, use of the selection criteria will be further strengthened by additional market intelligence.	£8m max and on Call subject to individual institution criteria
(e) Term deposits with financial institutions (banks and building societies) **(low to medium risk depending on period and credit rating)**	This tends to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is little risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty and penalties may apply.	The counterparty selection criteria restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard & Poors. On day to day investment dealing, use of the selection criteria will be further strengthened by additional market intelligence.	£8m and maximum 9 months subject to individual institution criteria
(f) Investment Properties (The Council does not currently hold, nor does it plan to hold any investment properties)	These are non-service properties which are being held pending disposal or for a longer term rental income stream. These are highly illiquid assets with high risk to value (the potential for property prices to fall or for rental voids)	In larger investment portfolios, some small allocation of property based investment may counterbalance/compliment the wider cash portfolio. Property holding will be re-valued regularly and reported annually with gross and net rental streams.	N/A
(g) Loans to third parties, including soft loans and loans to Registered Social Landlords	These are service transactions either at market rates of interest or below market rates (soft loans). These types of transactions may exhibit credit risk and are likely to be highly illiquid.	Each third party loan and each application is supported by the service rationale behind the loan and the likelihood of partial or full default.	Consistent with the particular scheme

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
(h) Loans to a local authority company (the Council currently has no such loans)	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit credit risk and are likely to be highly illiquid.	Each loan to a local authority company and each application is supported by the service rationale behind the loan and the likelihood of partial or full default.	N/A
(i) Shareholdings in a local authority company. The Council has an investment of £6.822m as at 31/03/16 in Falkirk Community Stadium Ltd represented by a range of assets at Westfield, Falkirk)	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss	£9m
(j) Non-local authority shareholdings: The Council has an investment of £0.5m in thinkWhere, an independent consultancy service in Geographical Information Systems. The Council relies on their systems, software and data management capacity to analyse, interrogate and utilise information that underpins some of the Council's Core Services.	These are non-service investments which may exhibit market risk; be only considered for longer term investments and will likely be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rationale behind the investment and the likelihood of loss.	£0.5m

The Monitoring of Investment Counterparties – The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Capita Asset Services, from which counterparties are checked promptly. On occasion, ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer and, if required, new counterparties which meet the criteria will be added to the list.

APPENDIX 2

CREDIT AND COUNTERPARTY POLICIES

Criteria to be used for creating/managing approved counterparty lists/limits.

- Chief Finance Officer in conjunction with the treasury management advisers, will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising period, type, sector and specific counterparty limits.

- To qualify for use, a counterparty must meet the minimum rating criteria with at least one of the three credit rating agencies.

- The Council will also have regard to additional operational market information such as negative rating watches/outflows before selecting the relevant counterparties.

- The Council's approved counterparty list will extend to selected counterparties from the following sectors:

  UK Banks
  Overseas Banks (but with UK authorisation) Minimum Sovereign rating of AA
  Building Societies
  UK Local Authorities
  UK Government

- The minimum level of credit rating for an approved counterparty per Fitch or equivalent ratings will be as undernoted, with particular reference to the short term rating but having regard to the long term rating.

SHORT TERM	F1	Indicates the strongest capacity for timely payment of financial commitments within a 12 month timeframe
LONG TERM	A-	High Credit Quality. A low expectation of credit risk with a strong capacity for timely payment of financial commitments

- Part nationalised UK banking Group – Royal Bank of Scotland/Nat West. These banks can be included if they continue to be part nationalised or they meet the ratings above.

- The maximum period for investments will be 9 months unless an alternative period is recorded against a specific counterparty.

- The maximum value for any one investment transaction will be £8 million unless a lesser amount is recorded against a specific counterparty.

- The Council's own banker (Clydesdale) will continue to be used for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised where possible and maintained in an instantly accessible call account.

Full individual listings of counterparties and their limits are shown below.

APPROVED COUNTERPARTIES AND COUNTERPARTY LIMITS

Investments in the form of Temporary Deposits may be placed with the institutions noted below subject to the limit per institution indicated.

UK BANKS		
INSTITUTIONS	**LIMIT**	**MAX PERIOD**
Santander UK	£8m	9 months
Barclays Bank	£8m	9 months
Clydesdale Bank	£8m	Call
HSBC	£8m	9 months
Standard Chartered	£8m	9 months
Sumitomo Mitsui Banking Corporation Europe	£8m	9 months
Lloyds Banking Group *		
Lloyds TSB	£8m	9 months
Bank of Scotland	£8m	9 months
* A maximum combined monetary limit of	£8m	
Royal Bank of Scotland *		
Royal Bank of Scotland	£8m	9 months
Nat West	£8m	9 months
* A maximum combined monetary limit of	£8m	
Goldman Sachs International Bank	£8m	9 months
BUILDING SOCIETIES		
Nationwide	£5m	9 months
Leeds	£5m	9 months
Coventry	£5m	9 months
UK LOCAL AUTHORITIES	£5m per LA	9 months
UK GOVERNMENT	Unlimited	9 months
MONEY MARKET FUNDS	£5m per fund	Call

THIRD PARTY LOANS

The Investment Regulations require all loans to third parties to be classified as investments.

The (questionable) rationale behind this is to identify monies utilised in this way, which would otherwise be available for general investment and give rise to investment income.

To comply with the Regulations, the following is presented:-

Category and Context	Outstanding	
	No of loans	**Value £**
(a) Home Loans Only one loan remains of the advances to people purchasing under the right to buy scheme. The interest rate is set by the Scottish Government and is currently 3.13%.	1	1,736
(b) Care Home Deferred/Front Funding Payments When a person enters a care home, legislation requires the Council to offer the facility to pay care home fees to avoid a forced house sale. In the case of Deferred Payments, a standard security allows the monies to be recovered in due course. The Council is not allowed to charge interest.	63	1,063,252
(c) Bike to Work Scheme During the course of 2010/11, the Council launched a “Bike to Work” Scheme to encourage employees to become greener. The scheme provides tax and national insurance savings to employees who obtain bicycles and safety equipment used mainly for cycling to and from work. The scheme provides a loan which is paid over a one year period.	72	24,063
(d) Owner/Occupiers – High Rise Flats Communal repairs for High Rise blocks of flats e.g. lift refurbishment. Owner/occupiers have deferred their share of costs until such time as flat is sold and thereafter Council will be reimbursed. An Admin Fee for the service is also recharged to owner/occupiers.	17	131,295

Category and Context	Outstanding	
	No of loans	**Value £**
(e) **National Housing Trust Initiative** The Council was granted Scottish Government consent to borrow under the National Housing Trust Initiatives. The consent was used to finance a loan to Carrongrove NHT 2011 LLP for the purchase of housing units under this scheme. The loan will be repaid to the Council on the sale of the houses.	1	2,341,563

APPENDIX 4

LOANS FUND ADVANCES & REPAYMENTS

TOTAL			Years	Years	Years	Years	Years	Years	Years	Years	Years
	2016/17	**2017/18**	**2-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31-35**	**36-40**	**40-45**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Opening Balance	**280.39**	**283.25**	**311.61**	**370.36**	**270.04**	**164.19**	**81.26**	**38.60**	**23.99**	**11.58**	**2.86**
Advances	16.11	41.96	124.22	-	-	-	-	-	-	-	-
Repayments	(13.25)	(13.60)	(65.47)	(100.32)	(105.85)	(82.93)	(42.66)	(14.61)	(12.41)	(8.72)	(2.86)
Closing Balance	**283.25**	**311.61**	**370.36**	**270.04**	**164.19**	**81.26**	**38.60**	**23.99**	**11.58**	**2.86**	**-**

GENERAL FUND			Years	Years	Years	Years	Years	Years	Years	Years	Years
	2016/17	**2017/18**	**2-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31-35**	**36-40**	**40-45**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Opening Balance	**158.16**	**151.77**	**159.69**	**125.77**	**86.32**	**52.00**	**23.23**	**8.63**	**2.76**	**.69**	**.01**
Advances	2.39	16.12	-	-	-	-	-	-	-	-	-
Repayments	(8.78)	(8.20)	(33.92)	(39.45)	(34.32)	(28.77)	(14.60)	(5.87)	(2.07)	(0.68)	(0.01)
Closing Balance	151.77	**159.69**	**125.77**	**86.32**	**52.00**	**23.23**	**8.63**	**2.76**	**0.69**	**0.01**	**-**

HRA			Years	Years	Years	Years	Years	Years	Years	Years	Years
	2016/17	**2017/18**	**2-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31-35**	**36-40**	**40-45**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Opening Balance	121.77	**130.89**	**146.56**	**208.49**	**158.19**	**99.56**	**54.52**	**29.97**	**21.23**	**10.89**	**2.85**
Advances	13.58	21.05	90.24	-	-	-	-	-	-	-	-
Repayments	(4.46)	(5.38)	(28.31)	(50.30)	(58.63)	(45.04)	(24.55)	(8.74)	(10.34)	(8.04)	(2.85)
Closing Balance	**130.89**	**146.56**	**208.49**	**158.19**	**99.56**	**54.52**	**29.97**	**21.23**	**10.89**	**2.85**	**-**

TIF			Years	Years	Years	Years	Years	Years	Years	Years	Years
	2016/17	**2017/18**	**2-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31-35**	**36-40**	**40-45**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
Opening Balance	**0.46**	**0.59.59**	**5.36**	**36.1**	**25.53**	**12.63**	**3.51**	**-**	**-**	**-**	**-**
Advances	0.14	4.79	33.98	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Repayments	(0.01)	(0.02)	(3.24)	(10.57)	(12.90)	(9.12)	(3.51)	**-**	**-**	**-**	**-**
Closing Balance	**0.59**	**5.36**	**36.1**	**25.53**	**12.63**	**3.51**	**-**	**-**	**-**	**-**	**-**