Agenda Item 11

Treasury Management Strategy 2019/20

FALKIRK COUNCIL

Subject: **Treasury Management Strategy 2019/20**
Meeting: **Executive**
Date: **16 April 2019**
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 2019/20.

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 2019/20 as set out in section 4.2 of this report

2) adopts the Investment Strategy for 2019/20 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 4.4 of this report

4) approves the changes to the Loans Fund repayments as set out in section 4.7.7 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 2019/20. Thereafter an Interim Review report will be submitted to Members by 31 December 2019. The Interim Review report provides an update on the progress of Treasury Management activities during the course of the financial year. The final Annual Review report will be submitted to the Executive by 30 June 2020 and will advise Members of the final position in relation to Treasury Management activities during 2019/20.

4. Considerations

4.1 Economic and Interest Rate Outlook

4.1.1 UK GDP growth in 2018 came in at 1.4% which was down on the 2017 rate of 1.8%. It is the slowest rate of growth since 2012 and is primarily being blamed on the fall on factory outputs and car production. Economists were expecting a slowdown but the rate of growth is lower than anticipated with the continuing uncertainty over Brexit undoubtedly impacting. Following the Chancellor's Spring Statement, UK growth forecasts for the year have been reduced from 1.6% to 1.2%. Unemployment stands at 4%, which is the lowest level for 43 years. Inflation fell from 2.1% to 1.8% in January 2019, which is below expectations of 1.9% and the lowest rate for 2 years. The reduction is due to a slowdown in the cost of electricity, gas and other fuels. The Bank of England's forecast for inflation for the next two years, is marginally above the 2% target rate.

4.1.2 Growth in the Eurozone was 0.2% in the 4th quarter of 2018 (0.4% in quarter 1 of 2018) and the expectation is for it to weaken further in 2019. Given the outlook for growth, the European Central Bank is unlikely to increase interest rates in the meantime, with any increase in rates being as far out as 2020.

4.1.3 USA growth for 2018 came in at 2.9%, marginally less than the 3% target but higher than the growth rate of 2.2% in 2017. Unemployment currently sits at 4%, which is the lowest for 49 years. Inflation for 2018 fell to 1.9% and is expected to continue to fall below the Federal Reserve's (FED) target rate of 2% in 2019. The FED has continued to increase interest rates on a gradual basis with the last rate increase in December 2018, when it was increased from 2.25% to 2.5%. This is the fifth increase in 2018 although at the moment there are no specific references to rate increases in 2019.

4.1.4 The Monetary Policy Committee (MPC) increased the bank base rate from 0.50% to 0.75% in August 2018. The MPC advised in February 2019, that the withdrawal from the European Union (EU) and the ease with which this is completed, will determine the level and timing of future changes in the bank base rate. The latest forecasts for interest rates are shown in the table below and are predicated on the assumption that an agreement is reached between the UK and the EU. The table demonstrates that the bank base rate will increase from 0.75% in 2018/19 to 1.75% by the end of 2021/22. Public Works Loan Board (PWLB) rates have been experiencing exceptional levels of volatility and it's likely that this volatility could continue, especially given the uncertainty of the final withdrawal from the EU. However in the longer term, it is expected that gilt yields and therefore PWLB rates will rise. This information has been provided by Link Asset Services, the Council's Treasury advisers.

		MONEY RATES		**PWLB RATES**			
	Bank Rate	**3 Mths**	**1Yr**	**5Yr**	**10Yr**	**25Yr**	**50Yr**
2018/19	0.75	0.67	0.94	1.81	2.21	2.66	2.47
2019/20	1.00	1.10	1.50	2.10	2.50	3.00	2.80
2020/21	1.25	1.50	1.90	2.40	2.80	3.30	3.10
2021/22	1.75	1.90	2.30	2.60	3.00	3.50	3.30

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 4.1.4, are considered to be the most probable outcome.

4.2.2 The longer term borrowing requirement is c£69m (see paragraph 4.2.4). The next few years indicate a continuation of significant interest rate differential in favour of short term rates; however, the complete range of borrowing periods will be reviewed at borrowing points.

4.2.3 The Council's estimated debt position at 01/04/19 is:

	£'m	% of Total Debt
LONGER TERM FUNDING		
- Maturing loans in 2019/20	2.5	1.0%
- Loans with Maturity > 1 year	223.1	87.3%
	225.6	
SHORT TERM FUNDING	30.0	11.7%
TOTAL ESTIMATED DEBT	**255.6**	**100.0%**

4.2.4 The expected longer term borrowing requirement for 2019/20 is c£69m, as set out below:

	£'m
Capital Programmes (net of capital receipts)	50.2
Service Payments	(13.5)
Replacement of Long-Term Borrowing (see table above)	2.5
Replacement of Short-Term Borrowing (see table above)	30.0
TOTAL LONGER TERM BORROWING REQUIREMENT	**69.2**

4.2.5 The £50.2m borrowing requirement for Capital Programmes includes £8.5m borrowing for TIF projects. Also included is £29.4m for the Housing Capital Programme and the balance of £12.3m is in relation to the General Fund Capital Programme including c£6m of estimated slippage for 2018/19.

4.2.6 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£69m per paragraph 4.2.4 may still be required regardless of any slippage in the 2019/20 capital programme.

4.2.7 The replacement of short term borrowing shown in the table above refers to £30m of short term debt that matures in 2019/20. These loans may be replaced on a short term or long term basis depending on cash flow requirements and relative 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. These Market Loans are held with Dexia Credit (£8m) and Just Retirement Ltd; (£5m). Just Retirement Ltd; purchased this loan from KA Finanz AG on 19 December 2018. The remaining two Market Loans (£13m) are held with Barclays Bank and as previously advised they have waived their right to change the applicable interest rate of these loans. 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 at 0.2% below standard PWLB rates. Falkirk Council's application for this facility has been approved. The Council has also applied to access further discounted PWLB borrowing under the Local Infrastructure Rate which is 0.4% below standard PWLB Rates. A decision on the application is still to be made and Members will be advised in due course. The Council will also consider loans from other banks and financial institutions if more advantageous terms can be secured.

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 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.

4.3.3 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 a local authority company (none currently held by the Council)

- o Non-local authority shareholdings (refer to Appendix 1)
- o Loans to third parties, including soft loans (refer Appendix 3)

4.3.4 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.

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

4.3.6 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 2019/20 has been reviewed to ensure it is robust enough to enable the Council to manage its investments effectively.

4.3.7 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.

4.3.8 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 Treasury Indicators

4.4.1 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.

4.4.2 Members are asked to approve the undernoted Treasury indicators:

		2019/20	2019/20
1)	**MATURITY STRUCTURE**	**LOWER**	**UPPER**
		%	%
	Fixed Interest Rate Borrowing 2019/20:		
	Under 12 months	0	25
	12 months – 2 years	0	25
	2 years – 5 years	0	25
	5 years – 10 years	0	35
	10 years – 20 years	0	35
	20 years – 30 years	0	35
	30 years – 40 years	0	35
	40 years – 50 years	0	35
	Variable Interest Rate Borrowing 2019/20:		
	Under 12 months	0	5
	12 months – 2 years	0	5
	2 years – 5 years	0	5
	5 years – 10 years	0	5
	10 years – 20 years	0	5
	20 years – 30 years	0	5
	30 years – 40 years	0	5
	40 years – 50 years	0	5
2)	**MAXIMUM PRINCIPAL SUMS INVESTED > 365 DAYS** The Council does not envisage having sums available for investment for periods longer than 365 days.		

4.5 Treasury Management Code of Practice & Prudential Code

4.5.1 Members were previously advised that CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code in December 2017. Although these revised Codes were issued in December 2017, CIPFA issued a statement accepting that full implementation of any changes arising from these revised codes would not be expected until 2019/20.

4.5.2 Key changes within the Treasury Management Code are:

- Guidance on investments that are not part of treasury management activities i.e. investment in non-financial assets which an organisation holds primarily for financial returns such as investment property portfolios. Falkirk Council does not have any investment properties as all commercial and industrial properties are held for economic purposes and not financial returns. However the Council does have an investment in Falkirk Community Stadium Limited valued at c£4.3m and an investment in thinkwhere of £0.5m. Although these investments are not held primarily for financial return, the revised Treasury Management Code requires that any movement in the value of these investments is shown separately in the Council's Annual Accounts. It should be noted that any change in value, either up or down will have no impact on the bottom line as it is simply a presentational change in the accounts because of International Accounting Reporting Standards (IFRS) 9.

- Amendments to some of the Treasury Management Practices (TMP's) that Councils maintain to manage and control treasury management activities. These amendments include risk management consideration such as inflation risk management together. Specific reference to MIFID II (Markets in Financial Instruments Directive II) as part of the Council's approved financial instruments, is now included. The Council's TMP's have now been updated and incorporate any changes required by the revised Code.

4.5.3 The key requirement of the revised Prudential Code requires Councils to prepare a Capital Strategy. The Capital Strategy 2019/20 – 2023/24 was therefore subsequently approved by Members at Council on 27 February 2019. The Capital Strategy sets out the medium and long term context in which Falkirk Council's capital expenditure and investment decisions are made and demonstrates the linkage with the Council's Corporate Asset Management Strategy, Strategic Property Review, Corporate Plan and the Treasury Management Strategy. It is integrated with the Revenue Budget and aligns with the Medium Term Financial Plan and also links to the Council of the Future agenda and Service Business Plans.

4.6 Treasury Management Advisers

4.6.1 The Council has appointed Link 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

4.6.2 The Council's has entered into a new two year contract with Link Asset Services effective from 1 April 2019 to 31 March 2021.

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

4.7 Loans Fund

4.7.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 require disclosures within the annual Strategy, in relation to Loans Fund Accounting. Details of the 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.

4.7.2 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.

4.7.3 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 2019, will continue to be repaid on the existing repayment basis i.e. annuity method. The repayment term is commensurate with the benefit of the asset to which the advance relates.

- All loans fund advances made during 2019/20 will also be repaid using the annuity method with a repayment term which is commensurate with the benefits of asset to which the advance relates.

4.7.4 As required by the 2016 regulations, an analysis of the current 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 2018/19 and 2019/20 and thereafter shown in bands of years. Note that the advances for 2019/20 includes 2018/19 slippage/rescheduled projects as well as those included in the approved 2019/20 Capital Programmes. Members should note that there has been no change to the repayment profile of any loans fund advances at this point in time.

4.7.5 The issue of Loans Fund Accounting has in the last two or three months, been the subject of much discussion between COSLA, the Scottish Government and Audit Scotland. The CIPFA Scottish Directors of Finance believe that under the 2016 regulations, Councils are able to revise the repayment period and/or the repayment amount of historic debt if they consider it prudent to do so. Scottish Government issued Statutory Guidance advising that this would only apply to debt incurred from 1 April 2016 onwards and Audit Scotland have taken the same view. However the Scottish Government Cabinet Secretary has given a commitment to change the legislation to allow Councils to vary loans fund repayments for debt incurred pre 1 April 2016. The CIPFA Scottish Directors of Finance have in the meantime, written to Audit Scotland, setting out the considered view of the Directors of Finance. They are hopeful that this will be resolved shortly, which will therefore give Councils the flexibility to vary repayments as detailed in the 2016 regulations.

4.7.6 The Council's Treasury Advisors, Link Asset Services, have carried out a review of the Loans Fund to see to what extent Falkirk Council could benefit from the 2016 regulations. As stated in paragraph 4.7.3, the repayment term adopted by the Council is commensurate with the benefit of the asset to which the advance relates. Link have advised that there is scope to increase the repayment term for some of the advances pre and post 1 April 2016, whilst still ensuring that the repayment term is prudent and in line with the benefit of the asset to which the advance relates. Link have also provided information on the repayment periods applied by other authorities and this supports the view that there is scope to increase the repayment term for some of the debt.

4.7.7 All property assets are independently valued on a 5 year rolling programme to provide an accounting valuation for inclusion in the Council's Annual Report and Accounts. This valuation also provides details of the remaining useful life of the asset. It is therefore the intention to review the repayment term currently applied to outstanding debt to match this with the remaining useful life of the asset as detailed in the independent valuation. An increase in the repayment term of the loan, will in the short to medium term, result in a reduction in Loan Charges to the Revenue Budget. Should it be agreed that the 2016 Regulations allows Councils to vary the repayment term for debt pre April 2016, then there is a potential for Loan Charges savings in the short to medium term. Once agreement is reached and this review has been completed, Members will be advised of the impact of this change in repayment periods. However, going forward, regardless of whether agreement is reached on the treatment for debt pre 1 April 2016, all debt from 1 April 2016 onwards will be aligned to the asset life to which the advance relates.

4.8 Member/Officer Training

4.8.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues. Training sessions have been arranged in the past and going forward, further training sessions will be scheduled to ensure that Members are fully aware of their scrutiny role for treasury management purposes

4.8.2 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.

6.2 A review of repayment period for Loans Fund advances will have a favourable impact on the Revenue Budget.

Resources

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

Legal

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

Risk

6.4 Although interest rate assumptions are considered after discussion with Link, 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 with the prospects for both short term and longer term interest rates being influenced by future inflationary expectations, the pace of the economic recovery and Brexit. The original Brexit date of 29 March 2019 has been postponed and at the time of writing, Parliament is expected to pass a law postponing Brexit to 12 April 2019. However the situation remains very fluid and consequently there is no clear indication of how the final withdrawal from the EU will be managed. Accordingly the timing and quantum of any increase in interest rates is unknown. A mid-year review of the treasury management function will be submitted to Members by 31 October as required by the Regulations.

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Date: 3 April 2019

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
Link 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. .	£8m per LA and maximum 1 year
(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.	£8m 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.	Banks - £8m and maximum 1 year subject to individual institution criteria for banks. Building Societies - £5m and maximum 1 year subject to individual institution criteria for building societies.
(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

	Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
(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
(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 £4.284m as at 31/03/18 in Falkirk Community Stadium Ltd represented by a range of assets at Westfield, Falkirk). This investment is due to be revalued at 31/03/19.	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 company 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 Link 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

- The Council's own banker (Royal Bank of Scotland) will continue to be used for investment purposes even if the bank falls below the above criteria, because it is part nationalised. Balances will also be held on a Call basis too. Investments will be restricted to the ring fenced bank – Royal Bank of Scotland Plc.

- Investments in Nat West, which is also part nationalised with the Royal Bank of Scotland, can be included if they continue to be part nationalised or if they meet the ratings above. Investments will be restricted to the ring fenced bank – National Westminster Bank Plc.

- The maximum period for investments will be 1 year 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.

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**
Royal Bank of Scotland *		
Royal Bank of Scotland	£8m	1 year
Nat West	£8m	1 year
* A maximum combined monetary limit of	£8m	
Santander UK	£8m	1 year
Barclays Bank	£8m	1 year
HSBC	£8m	1 year
Standard Chartered	£8m	1 year
Sumitomo Mitsui Banking Corporation Europe	£8m	1 year
Lloyds Banking Group *		
Lloyds TSB	£8m	1 year
Bank of Scotland	£8m	1 year
* A maximum combined monetary limit of	£8m	
Goldman Sachs International Bank	£8m	1 year
BUILDING SOCIETIES		
Nationwide	£5m	1 year
Coventry	£5m	1 year
Leeds	£5m	6 months
Yorkshire	£5m	6 months
Skipton	£5m	6 months
UK LOCAL AUTHORITIES	£8m per LA	1 year
UK GOVERNMENT	Unlimited	6 months
MONEY MARKET FUNDS	£8m 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	1,127
(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.	36	913,211
(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.	36	17,662
(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
(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. Repayment of the loan is imminent and is expected late March 2019 or early April 2019.	1	2,341,563

APPENDIX 4

LOANS FUND ADVANCES & REPAYMENTS

TOTAL			Years	Years	Years	Years	Years	Years	Years	Years	Years	Years	Years
	2018/19	2019/20	2-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Opening Balance	**284.33**	**296.31**	**333.00**	**526.32**	**399.80**	**270.06**	**169.51**	**112.00**	**80.62**	**48.63**	**18.51**	**2.24**	**0.92**
Advances	30.47	50.20	266.86	-	-	-	-	-	-	-	-	-	-
Repayments	(18.49)	(13.51)	(73.54)	(126.52)	(129.74)	(100.55)	(57.51)	(31.38)	(31.99)	(30.12)	(16.27)	(1.32)	(0.92)
Closing Balance	**296.31**	**333.00**	**526.32**	**399.80**	**270.06**	**169.51**	**112.00**	**80.62**	**48.63**	**18.51**	**2.24**	**0.92**	**-**

GENERAL FUND			Years	Years	Years	Years	Years	Years	Years	Years	Years	Years	Years
	2018/19	2019/20	2-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Opening Balance	**147.74**	**144.31**	**149.46**	**179.74**	**138.25**	**98.49**	**66.22**	**46.73**	**30.11**	**17.88**	**5.89**	**2.24**	**0.92**
Advances	9.23	12.31	61.97	-	-	-	-	-	-	-	-	-	-
Repayments	(12.66)	(7.16)	(31.69)	(41.49)	(39.76)	(32.27)	(19.49)	(16.62)	(12.23)	(11.99)	(3.65)	(1.32)	(0.92)
Closing Balance	**144.31**	**149.46**	**179.74**	**138.25**	**98.49**	**66.22**	**46.73**	**30.11**	**17.88**	**5.89**	**2.24**	**0.92**	**-**

HRA			Years	Years	Years	Years	Years	Years	Years	Years	Years	Years	Years
	2018/19	2019/20	2-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Opening Balance	**136.49**	**151.04**	**174.14**	**304.28**	**235.21**	**161.47**	**103.29**	**65.27**	**50.51**	**30.75**	**12.62**	**-**	**-**
Advances	20.38	29.42	166.24	-	-	-	-	-	-	-	-	-	-
Repayments	(5.83)	(6.32)	(36.10)	(69.07)	(73.74)	(58.18)	(38.02)	(14.76)	(19.76)	(18.13)	(12.62)	-	-
Closing Balance	**151.04**	**174.14**	**304.28**	**235.21**	**161.47**	**103.29**	**65.27**	**50.51**	**30.75**	**12.62**	**-**	**-**	**-**

TIF			Years	Years	Years	Years	Years	Years	Years	Years	Years	Years	Years
	2018/19	2019/20	2-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Opening Balance	**0.10**	**0.96**	**9.40**	**42.30**	**26.34**	**10.10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Advances	0.86	8.47	38.65	-	-	-	-	-	-	-	-	-	-
Repayments	-	(0.03)	(5.75)	(15.96)	(16.24)	(10.10)	-	-	-	-	-	-	-
Closing Balance	**0.96**	**9.40**	**42.30**	**26.34**	**10.10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**