DATA LABEL: PUBLIC

WEST LOTHIAN COUNCIL

TREASURY MANAGEMENT PLAN FOR 2019/20

REPORT BY HEAD OF FINANCE AND PROPERTY SERVICES

A. PURPOSE OF REPORT

To seek approval for the Treasury Management Plan for 2019/20, including changes to the statutory repayment of loans fund advances and the method of interest apportionment between the general fund and the Housing Revenue Account (HRA).

B. RECOMMENDATION

It is recommended that Council:

1. Approves the 2019/20 Treasury Management Plan;
2. Notes the review of the operation of the loans fund;
3. Approves the proposal to revise the method of interest apportionment between the general fund and the Housing Revenue Account (HRA);
4. Approves the proposal to adopt the asset life method for all loans fund advances from 1 April 2018;
5. Approves the proposal to adopt a repayment period of 35 years for all loans fund advances from 1 April 2018;
6. Approves the proposal to adopt a repayment interest rate of 5.5% for all loans fund advances from 1 April 2018;
7. Notes the current position regarding the application of a reprofiling adjustment to loans fund repayments, and notes the intention for officers to provide further reports on this issue when the position is clarified.

C. SUMMARY OF IMPLICATIONS

I.	**Council Values**	Being honest, open and accountable. Making the best use of our resources.
II.	**Policy and Legal (including Strategic Environmental Assessment, Equality Issues, Health or Risk Assessment)**	The plan complies with the policy set out in the council's Treasury Policy Statement, the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the CIPFA Treasury Management in Public Services Code of Practice and the Local Government Investments (Scotland) Regulations 2010.
III.	**Implications for Scheme of Delegations to Officers**	No changes to current scheme of delegation for treasury management activities.
IV.	**Impact on performance and performance Indicators**	None.

V.	**Relevance to Single Outcome Agreement**	Effective prioritisation of resources will be essential to achieving key outcomes over the next three years.
VI.	**Resources - (Financial, Staffing and Property)**	The plan provides a framework for treasury management designed to manage risk whilst minimising the future borrowing costs of the council.
VII.	**Consideration at PDSP**	Proposed changes to statutory payment of loans fund advances and allocation of interest were considered by Partnership and Resources Policy Development and Scrutiny Panel (PDSP) on 1 February 2019.
VIII.	**Other consultations**	The council's treasury advisers have been consulted in relation to the forecasts and recommendations included in the plan.

D. TERMS OF REPORT

The attached Treasury Management Plan forms part of the overall corporate and financial planning process agreed by Council on 20 February 2017, and details the expected activities of the treasury function in 2019/20.

Following a review of the operation of the loans fund, it is proposed to make changes to the way that interest is apportioned between general fund and the HRA to take account of internal borrowing. It is also proposed that, under the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, the asset life (annuity) method is adopted as the most appropriate option for calculating repayment of debt through the loans fund from 1 April 2018, and that a repayment period of 35 years at an interest rate of 5.5% is also adopted for all loans fund advances from 1 April 2018.

The specific section of the 2016 guidance that refers to an authority's ability to subsequently vary either the period or the amount of the repayment (or both), if it considers it prudent to do so, has been the subject of differing views and interpretation. The Cabinet Secretary for Finance, Economy and Fair Work, in stage 1 of the budget bill on 31 January 2019, confirmed that he intended to bring forward, as early as he can, changes to legislation which will allow councils to vary loans fund repayments for advances made prior to 1 April 2016.

Although changes to loans fund accounting cannot be made until this legislation is enacted, it is anticipated that this will allow councils to repay their historic loans fund advances over a longer period of time, ensuring that payments are prudent and reasonably reflect the period over which the community receives the economic benefit of assets. This approach will be consistent with changes in the repayment of debt liability that have been carried out over the last five years in England and Wales.

Given the ongoing and severe financial pressures facing the council, the flexibility to determine what is prudent in terms of loans fund repayments is a key factor in the overall context of the council's medium term financial strategy. Once the revised legislation is received, officers will provide a report on possible further recommendations, including implications for the updated four year financial strategies for 2019/20 to 2022/23 for both the general fund and the HRA.

E. CONCLUSION

The attached plan for 2019/20 complies with the Treasury Management and Prudential Codes and the Scottish Investment Regulations. The plan will form the basis of the council's treasury activities during the financial year 2019/20.

F. BACKGROUND REFERENCES

CIPFA Treasury Management in Public Services Code of Practice and Guidance

West Lothian Council Treasury Policy Statement and Treasury Management Practices

CIPFA Prudential Code for Capital Finance in Local Authorities

Local Government Investment (Scotland) Regulations 2010

Loans Fund Review – Report by Head of Finance and Property Services to Partnership and Resources Policy Development and Scrutiny Panel on 1 February 2019

Revenue Budget 2019/20 to 2022/23 – Report by Head of Finance and Property Services to West Lothian Council on 19 February 2019

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19 February 2019

WEST LOTHIAN COUNCIL

Treasury Management Plan for 2019/20

February 2019

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Appendices

1.0 INTRODUCTION

The annual Treasury Management Plan must be submitted to Council for approval in advance of the forthcoming financial year to comply with the revised Treasury Management Code and Scottish Investment Regulations.

On 20 February 2017, West Lothian Council agreed that the established integrated approach to corporate and financial planning should continue for the five year period 2018/19 to 2022/23, and that the revenue plan, capital plan and treasury management plan were to be considered at the same Council meeting on an ongoing basis.

The updated 2019/20 to 2022/23 Revenue Budget Report, including prudential indicators, is also presented to Council on 19 February 2019 for approval (Agenda Item 1). The borrowing and investment plans outlined in this report are based on the updated General Services Capital Investment Programme 2019/20 to 2027/28 (Agenda Item 2) and the updated Housing Capital Investment Programme 2019/20 to 2022/23 (Agenda Item 4).

This report has been produced with the assistance of forecasts and recommendations from Link Asset Services, West Lothian Council's treasury advisors.

2.0 UPDATED PRUDENTIAL CODE AND TREASURY MANAGEMENT CODE

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) controls capital spending in a system based on self-regulation by authorities. The key objectives of the Prudential Code are to ensure that capital expenditure plans are affordable, external borrowing is prudent and sustainable, and that treasury management decisions are taken in accordance with professional good practice. The Prudential Code requires the council to set a number of prudential indicators for the forthcoming three years. Appendix 1 includes the agreed treasury indicators that must be complied with when implementing the council's Treasury Management Plan.

In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. The revisions have particularly focused on non-treasury investments and especially on major purchases of property with a view to generating substantial increases in income compared to normal treasury management activities. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management.

These changes in the revised codes are particularly relevant to the activities of English authorities, as all non-treasury investments, financial guarantees and loans are already required to be listed as part of the Treasury Management Plan for Scottish authorities. However, the new codes require greater explanation for the investment in non-financial assets in such areas as their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake them.

There have also been some minor updates to the required prudential indicators, which have been reflected in this report.

Under the revised codes, all local authorities will be required to prepare an additional report from 2019/20, a capital strategy report, which is intended to provide the following:-

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the capital strategy report is to ensure that all elected members on the full council fully understand the overall capital strategy, governance procedures and risk appetite entailed by this strategy. The capital strategy report will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured. A report setting out the capital strategy will be presented to Council by 31 March 2019.

The revised codes also set out an extension of the specific role of the Section 95 Officer in respect of the capital strategy and investment in non-financial assets. This includes preparing a capital strategy within a long term timeframe; ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term; ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority; ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing; ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above; and creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

3.0 LOANS FUND REVIEW

3.1 Background

The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) came into force on 1 April 2016. These Regulations replaced the statutory provisions for local authority borrowing, lending and Loans Fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975.

The 2016 Regulations stipulate that local authorities must operate a loans fund, which is a way for the council to recognise the amount of capital expenditure that is being financed by borrowing each year and also the amount of this borrowing that is being repaid each year and charged to the revenue account. All borrowing undertaken to fund the capital programme must be repaid through the loans fund on a prudent basis. The Regulations require the statutory Loans Fund to be administered in accordance with the Regulations, proper accounting practice and prudent financial management.

The statutory purpose of the Loans Fund is:

- to recognise, by making advances from the Loans Fund, the expenditure incurred, or loans made to third parties, by the authority, which a local authority has determined are to be financed by borrowing;
- to record transactions – opening balances each year, new advances, repayments charged to revenue (statutory repayment of debt), and a closing position balance at each financial year end, being the value of the Loans Fund advances still to be repaid/charged to revenue;
- for each Loans Fund advance made, to record the annual repayment to be made to revenue. This will provide an authority with a profile of annual charges representing the amount of statutory repayment of debt to be charged to the General Fund/Housing Revenue Account (HRA) in any financial year.

Section 14 of the 2016 Regulations states that:

- A local authority must, at the time of making a loans fund advance, determine:
    - the period over which the advance is to be repaid to the loans fund; and
    - the amount of repayment to be made to the loans fund in each financial year over that period.
- A local authority may subsequently vary either the period or the amount of the repayment (or both), if it considers it prudent to do so.

The 2016 guidance sets out four options for the calculation of the repayment of loans fund advances and simplifies the statutory purpose of the loans fund. The four options are:

- **Option 1 – Statutory Method** – per the 2016 Regulations, this method will no longer be available after 2021;
- **Option 2 – Depreciation Method** – a complex method that links the calculated repayment to the depreciation charged each year and movement in the value of the asset;
- **Option 3 – Asset Life Method** – a simpler alternative to the depreciation method, either on an equal instalment basis or on an annuity basis; or
- **Option 4 – Funding/Income Profile Method** – repayments calculated by assessing future income receivable from the use of the asset, if the asset created generates income.

The guidance indicates that these four options are those likely to be most relevant for the majority of local authorities for loans fund advances made for the authority's own capital expenditure. Other approaches are not ruled out but must be considered by the local authority to be a prudent repayment.

3.2 Review of Loans Fund Operations

As reported to Partnership and Resources PDSP on 5 October 2018 and 1 February 2019, and to full Council on 20 November 2018, officers have been investigating options to review the operation of the loans fund, including any potential opportunities for savings. Following the introduction of the new regulations, a review of both the General Fund and Housing Revenue Account loans fund advance repayments has been carried out, and advice has been sought from the council's treasury advisors, Link Asset Services (LAS).

The review was undertaken in order to ensure that the council continues to make a prudent provision each year for the repayment of loans fund advances. A prudent repayment of a loans fund advance is one which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure funded by the borrowing. In determining what is prudent for an authority, it may be that providing for debt repayment over too short a period is just as imprudent as providing over too long a period.

The review covered the following areas:

- A review of the Authority's key data and calculations from 1 April 2004 to 31 March 2018;
- Advice regarding those debt liabilities which need not be subjected to Loans Fund repayments;
- Suggested amendments for any revision of the Loans Fund Policy;
- Outline of the optimum manner and procedures for future compliance with the statutory responsibility;
- Detailed methodology for the calculation of Loans Fund repayments, including the whole life impact of the proposed changes.

3.3 Proposals

After reviewing and considering the options and recommendations resulting from the Loans Fund Review, officers are proposing a number of changes to the way that the statutory loans fund is currently operated, as set out below.

3.3.1 Interest Apportionment

External borrowing is undertaken by the council to fund capital expenditure for both of the council's capital programmes, the general fund capital programme and the housing capital programme. Interest incurred on external borrowing is a revenue expense and, at the moment, this is apportioned between the general fund revenue account and the housing revenue account based on the loans fund pool rate, which is a percentage rate based on the total outstanding debt applicable to the general fund and the HRA.

Rather than using the pool rate to calculate the apportionment of these interest charges, it is proposed to take the actual borrowing position at the year end into account when allocating interest charges between the general fund and the HRA. As outlined in the treasury management plan each year, council officers, in conjunction with treasury advisors Link Asset Services, continually monitor prevailing interest rates and market forecasts to identify the most opportune time for borrowing during the year. In some years, this can mean that the council has an under borrowed position at the year end, which means that council reserves have been used to finance the capital programmes rather than actually borrowing the full amount required. This can also be referred to as internal borrowing, as this is utilising existing internal resources rather than borrowing additional external resources.

While interest rates are low, this is an effective use of working capital and balances in the short term. As the majority of council reserves are general fund reserves, currently around 99%, then it is considered appropriate for the general fund to gain the benefit from any internal borrowing due to the cost of lost interest earned on general fund balances. It is therefore proposed that the interest charges apportionment calculation at the end of each financial year is amended to take into account the internal borrowing position and that this change will be implemented from 1 April 2018.

3.3.2 Repayment Option

As noted above, the 2016 guidance sets out four options for the calculation of the repayment of loans fund advances and simplifies the statutory purpose of the loans fund. The council has historically used the statutory method (option 1) however, under the 2016 regulations, this option will no longer be available after 2021 and another option needs to be identified and adopted.

Under the asset life method (option 3), repayments are based on the initial estimated life and value of assets and thereafter do not change. Adopting the annuity method under this option links the repayment of the borrowing to the flow of benefits from the asset. On this basis, the asset life method is considered the method that is most appropriate to meet the requirements of the 2016 regulations for a prudent repayment of a loans fund advance, which is reasonably commensurate with the period and pattern of benefits provided to the community from the capital expenditure funded by the borrowing.

Having reviewed the options set out in the guidance, and having also considered the fact that the guidance allows for other options to be considered if a local authority considers those options to be prudent, officers are proposing that the annuity option under the asset life method (option 3) is the most appropriate and prudent method for the council and that this should be adopted from 1 April 2018.

3.3.3 Period of Repayment

As noted above, section 14 of the 2016 regulations states that a local authority must, at the time of making a loans fund advance, determine the period over which the advance is to be repaid to the loans fund. Since the inception of West Lothian Council in 1996, a number of repayment periods have been applied for repayment of debt to the loans fund using the annuity method. From 2007/08 to 2016/17, a standard 30 year repayment period was used, and for 2017/18 the repayment was 40 years to reflect the borrowing required to complete a specific asset. The average loan repayment period was 35 years for the general fund and 30 years for the HRA.

Loans fund repayments should be profiled over a period which reasonably reflects the period over which the community receives the economic benefit of the asset. To profile over a shorter period could be imprudent as it could be viewed as requiring the tax payer to repay capital investment before receiving the full benefit from the asset, however profiling over a longer period could mean that the tax payer is not repaying the full capital investment before the asset's life has ended.

A number of factors have been taken into account when considering what a prudent repayment period should be. Increasing pressure on capital budgets and constraints on capital funding have meant greater emphasis on maintaining existing assets rather than creating new assets, and improvements to building design, technology and materials mean that buildings are lasting longer than previously expected.

Taking this into account, it is considered prudent to revise the current policy on loans fund repayments and it is proposed to extend the repayment period to 35 years to more accurately reflect the increasing expected average life of assets for all new loans fund advances from 1 April 2018.

3.3.4 Interest Rate

Section 14 of the 2016 regulations also states that, at the time of making a loans fund advance, a local authority must determine the amount of repayment to be made to the loans fund in each financial year over the period. Once a prudent determination of repayment period has been made, an authority is required to use an appropriate interest rate to calculate the annual repayment amount. A review of loans fund interest applied from 2002/03 to 2017/18 gives an average rate of 5.5%, and it is considered that this historic average rate is a prudent rate to apply for future loans fund advances as it reflects the average interest rate on external borrowing. It is therefore proposed that an annuity interest rate of 5.5% is used for all loans repayment calculations on all new loans fund advances from 1 April 2018.

3.4 Reprofiling Adjustments

As outlined above, the 2016 guidance stipulates that a local authority must, at the time of making a loans fund advance, determine the period over which the advance is to be repaid to the loans fund and the amount of repayment to be made to the loans fund in each financial year over that period. The proposed changes outlined in section 3.3 above, to be actioned from 1 April 2018, meet the requirements outlined in the guidance.

The regulations also state that a local authority may subsequently vary either the period or the amount of the repayment (or both), if it considers it prudent to do so. Therefore, as long as a local authority considers it prudent, then the period or amount of repayment previously identified as being the most appropriate at a specific point in time may be reviewed and changed or updated based on latest information, and that this would include all debt repayments.

As a result of this part of the guidance, a number of Scottish local authorities, including West Lothian, have been reviewing their historic debt repayments to assess whether the repayment methodology applied to historic loans fund advances is still the most prudent option. As a result of these reviews, and for the reasons outlined in section 3.3 above, many authorities believe that they should now be repaying their historic loans fund advances over a longer period of time, to ensure that the payments can be assessed as prudent and to ensure that the repayments reasonably reflect the period over which the community receives the economic benefit of assets that are now lasting longer than originally assumed. This would mean that local authorities had effectively over provided for loans fund repayments in prior years and could therefore under provide in future repayments to offset the previous over provision. Two Scottish local authorities have already made this reprofiling adjustment and have implemented changes from 2017/18.

3.5 Current Position

The specific section of the guidance that refers to an authority's ability to subsequently vary either the period or the amount of the repayment (or both), if it considers it prudent to do so, has been the subject of differing views and interpretation. The Cabinet Secretary for Finance, Economy and Fair Work, in stage 1 of the budget bill on 31 January 2019, confirmed that he intended to bring forward, as early as he can in the new financial year, changes to legislation which will allow councils to vary loans fund repayments for advances made prior to 1 April 2016.

Although changes to loans fund accounting cannot be made until this legislation is enacted, it is anticipated that this will allow councils to repay their historic loans fund advances over a longer period of time, ensuring that payments are prudent and reasonably reflect the period over which the community receives the economic benefit of assets. This approach will be consistent with changes in the repayment of debt liability that have been successfully carried out over the last five years in England and Wales.

Given the ongoing and severe financial pressures facing the council, the flexibility to determine what is prudent in terms of loans fund repayments is a key factor in the overall context of the council's medium term financial strategy. Once the revised legislation is received, officers will provide a report on possible further recommendations, including implications for the four year financial strategies for both the general fund and the HRA.

4.0 CURRENT PORTFOLIO POSITION

The council's current debt and investment position at 31 January 2019 is as follows:

		£m	£m	Average Interest Rate
Fixed Rate Funding	Public Works Loan Board (PWLB)		508.6	
	Market		60.6	
			569.2	4.1%
Variable Rate Funding	Public Works Loan Board (PWLB)	-		
	Municipal Bank	-	-	
Temporary Funding	Market		10.0	0.8%
Total Debt			**579.2**	**4.0%**
Total Investments			**102**	**0.8%**

5.0 FORECASTS

The basis of the Treasury Management Plan lies with determining appropriate borrowing and investment decisions in the light of the anticipated movement in both long and short-term interest rates. The plan for 2019/20 is structured around the general forecasts of interest rates but, like any proposed plan, there will be flexibility of application dependent on prevailing economic conditions.

The Bank of England's Monetary Policy Committee (MPC) reduced the bank rate to 0.5% in March 2009. The bank rate remained at this level until August 2016, when it was cut further to 0.25%. There was a 0.25% increase in the Bank Rate in November 2017, and then a further increase to 0.75% on 2 August 2018. At their meeting in November 2018, the MPC indicated that future rate rises would be gradual, and it is unlikely that a further increase would be implemented before the deadline for Brexit in March 2019. The next increase is forecast to be in May 2019, with following increases forecast to be in February and November 2020, before reaching 2.0% in February 2022.

The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 1.8% in January 2019. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. To improve liquidity in financial markets and to encourage the banks to increase commercial and mortgage lending, the MPC has introduced various rounds of quantitative easing since 2009. In August 2016, quantitative easing was increased from £375 billion to £435 billion, and additional measures were introduced around bond purchases and a term funding scheme to provide cheap funding to banks.

The flow of positive economic statistics since the end of the first quarter of 2018 has shown that poor growth in quarter 1 was overestimated, when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of 0.6%. However, growth in quarter 4 is expected to weaken significantly.

With so many external influences impacting on the UK's economy, economic forecasting remains difficult. Bank rate forecasts are likely to change over the course of 2019/20 based on prevailing economic data and political developments throughout the world. Forecasters believe the volatility of bond yields experienced in recent years will continue as investor fears and confidence moves between favouring more risky assets such as equities and safer government bonds.

Although the economic position demonstrated steady growth in recent years, the risks to sustained growth are:

- Ongoing uncertainty around the terms of the UK's withdrawal from the EU.
- The Bank of England raising the Bank Rate too quickly, causing economic growth to be weaker than forecast.
- Current UK growth is based largely on consumer spending and housing recovery.
- The UK's main trading partners having weak growth or recessions.
- Weak growth in other major economies impacting on investor and market confidence.
- A resurgence of the Eurozone sovereign debt crisis.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially where there is the threat of deflation.
- Geopolitical risks could trigger safe haven flows back to government bonds.

Within the context of continued growth, a degree of uncertainty remains within financial markets. The UK continues to be regarded as a safe haven, with some of the lowest sovereign borrowing costs in the world. This increased demand for gilts has resulted in PWLB borrowing rates continuing to be low. It is forecast that the longer term trend is for gilt yields and PWLB rates to rise, however interest rate increases are very unpredictable as volatility in gilt prices is strongly correlated to political developments.

Based on the above, the forecast for interest rates is:

Short Term Interest Rates
The next increase is forecast to be in May 2019, with following increases forecast to be in February and November 2020, before reaching 2.0% in February 2022.

Medium and Longer Term Rates
Medium term interest rates are expected to be lower than longer term rates with gradual increases in rates forecast throughout the year. The long term trend is for gilt yields, and therefore PWLB rates, to increase gradually due to the high issuance of bonds in major western countries and as investors move from bonds to equities. Five year PWLB rates are forecast to rise from 2.1% in quarter 1 (Q1) 2019 to 2.3% in Q1 2020, with twenty five year PWLB rates forecast to increase from 2.9% in Q1 2019 to 3.2% in Q1 2020.

Appendix 2 draws together City forecasts of the bank rate and PWLB fixed interest rates.

6.0 CAPITAL FINANCE PLAN

6.1 Borrowing Requirement

The council's estimated total borrowing requirement for each of the next three years is shown below:

	2019/20 £m	2020/21 £m	2021/22 £m
New Borrowing	29.7	34.9	7.5
Replacement Borrowing	14.8	0.0	0.0
Total Borrowing Requirement	**44.5**	**34.9**	**7.5**

6.2 Borrowing Plans

The borrowing requirement in 2019/20 of £44.5 million is based on the General Services and Housing capital budgets presented to West Lothian Council on 19 February 2019. For new borrowing, council officers, in conjunction with Link Asset Services, will continually monitor prevailing interest rates and market forecasts to identify the most opportune time for borrowing during the year. It is anticipated that replacement borrowing will be undertaken when existing borrowing matures, subject to available interest rates.

The uncertain economic outlook means that borrowing interest rates remain volatile, however initial assessments by commentators are that they will continue to be attractive. Short, medium and long term fixed rates are all forecast to increase incrementally over 2019 and 2020, with the short to medium term rates forecast to be cheaper than long term rates.

These forecasts show that various options are available for borrowing in 2019/20. Short and medium term rates are forecast to be cheaper than longer term borrowing throughout the year. Consequently, the council will borrow a spread of variable, short and medium term loans from the PWLB at the most opportune times during the financial year, however consideration may be given to longer term borrowing if attractive rates occur. It is anticipated that replacement borrowing will be secured when existing borrowing matures, subject to prevailing interest rates at that time.

A portion of the borrowing requirement could also be taken using Lenders Option Borrowers Option (LOBO) market loans however there are few of these products currently available in the market. LOBO borrowing would be for fixed periods up to 15 years and could be forward dated to reduce the cost of carry. The council will continue to liaise with Link Asset Services to identify opportunities to secure borrowing.

It is important to note that the plan adopted will be flexible and continually monitored against changes in money and capital market sentiments. Should there be any divergence between the actual position and the interest rates forecast the following action would be taken:

- **Significant risk of a much sharper rise in long and short term rates**
  In this event, the portfolio position will be reappraised with the likely action that fixed rate funding will be borrowed whilst interest rates are still relatively cheap securing borrowing at a rate that is acceptable to the council.

- **Significant risk of a sharp fall in long and short term rates**
  In this event, long term borrowings will be postponed and any opportunities for debt rescheduling from fixed rate funding into variable rate funding will be considered. This would allow the council to realise the benefit of reductions in interest rates.

6.3 Statutory Repayment of Loans Fund Advances

The council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

A variety of options are provided to councils, so long as a prudent provision is made each year. As detailed in section 3.3 above, the Council is recommended to approve the following position on the repayment of loans fund advances:-

- For existing loans fund advances, the current position will be to maintain the practice of previous years and apply the Statutory Method (option 1), with all loans fund advances being repaid by the annuity method.
- For loans fund advances made after 1 April 2018, the position for the repayment of loans advances will be the Asset Life Method (option 3), with repayments being made on an annuity basis, using a repayment period of 35 years and an annuity interest rate of 5.5%.

Using the approach outlined above, the expected transactions through the loans fund account for 2018/19 and 2019/20 are as follows:

Loans Fund Account Balances	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Balance as at 1 April	618.6	635.8
Advance for the financial year	31.4	29.7
Repayments made for the year	(14.2)	(15.2)
Balance as at 31 March	**635.8**	**650.3**

The profile of future loan repayments is as follows:

Loans Fund Account Repayments 2019/20	**General Fund £m**	**HRA £m**	**Total £m**
Year 1	10.1	6.2	**16.3**
Years 2-5	46.2	28.4	**74.6**
Years 6-10	72.8	40.5	**113.3**
Years 11-15	92.9	47.6	**140.5**
Years 16-20	84.0	54.4	**138.4**
Years 21-25	27.5	41.8	**69.3**
Years 26-30	17.9	23.6	**41.5**
Years 31-35	19.2	20.3	**39.5**
Years 36-40	14.1	0.0	**14.1**
Years 41-45	2.8	0.0	**2.8**
Years 46-50	0.0	0.0	**0.0**
Total	**387.5**	**262.8**	**650.3**

6.4 External v Internal Borrowing

Given the uncertain outlook for economic growth, the low bank rate is expected to continue until mid 2019, with the council receiving lower returns for investments but also being able to secure external borrowing at attractive rates. This position allows authorities to consider whether it is more beneficial to undertake external borrowing or pay for the capital programme with internal borrowing by reducing existing investments. Reducing investments would limit exposure to counterparty risk but could increase liquidity risks where the council's reserves and balances are not cash backed.

While interest rates are low, internal borrowing is an effective use of working capital and balances in the short term, however the council's treasury advisor believes that the longer run trend is for PWLB rates to gradually rise. It is therefore considered best value for the council to have a mix of external and internal borrowing. This will enable internal borrowing to be utilised to reduce the cost of carry and overall financing costs in the short term, but opportunities for external borrowing can still be secured at the most opportune moments while rates are still at reasonable levels. This allows the council to secure good rates to ensure that the capital plans to 2027/28 are not compromised due to increased borrowing rates in the future.

7.0 ANNUAL INVESTMENT PLAN

7.1 Investment Policy

The Local Government Investments (Scotland) Regulations 2010 came into force in April 2010. The Regulations require local authorities to consider the totality of their investment activity and, as such, have a wider application than the CIPFA Treasury Management Code. The Regulations apply to a range of investments including temporary surplus funds with banks and similar institutions, shareholding in companies or joint ventures, loans to group undertakings and third parties and investment properties. The Regulations require local authorities to manage risks to the capital sum invested and optimise the return consistent with those risks.

The council's investment priorities are the security of capital and the liquidity of its investments. The council will also aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity. The risk appetite of the council is low in order to give priority to security of its investments. Investment instruments identified for use are listed in Appendix 3 as permitted investments. Any investment not listed will be ultra vires in line with the Regulations and will not be entered into by the council. Before any new investment mechanism can be used, approval would be required by the Council to amend the permitted investment list.

7.2 Creditworthiness Policy

The council's treasury management advisor, Link Asset Services, provides credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard & Poor's. The council uses the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties.

All credit ratings are monitored regularly and the council is alerted by email to rating changes from all three agencies. If a rating downgrade results in the counterparty no longer meeting the council's minimum criteria, its further use as a new investment option will be withdrawn immediately. Sole reliance is not placed on the use of credit ratings supplied by our treasury advisors. In addition, the council also uses the financial press, Reuters news, market data and information on government support for banks, including the credit ratings of government support.

The council’s policy in prior years was only to invest in appropriately rated UK banks and building societies augmented, when available, by UK local authorities and public bodies. This position was enhanced in recent years with the Council agreeing an increase in the counterparty limit for part-nationalised UK banks, revising the maximum percentage of investments in AAA rated Money Market Funds to 35% and adding certificates of deposit with appropriately rated financial institutions to the counterparty list. These changes increase the counterparty options available, without sacrificing the security of the council's funds. On this basis, the council's current approach will be continued.

Recent changes to UK legislation have meant that the largest UK banks were required to separate their core retail banking services from their investment and international banking activities by 1 January 2019, known as ‘ring-fencing’. Ring-fencing is a regulatory initiative created in response to the global financial crisis in order to improve the resilience and resolvability of banks by changing their structure. In general, activities offered from within a ring fenced bank will be focused on lower risk, day to day, core activities, while more complex and ‘riskier’ activities are required to be housed in a separate entity, a non ring-fenced bank. This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included in the process may have changed, the fundamentals of credit assessment have not. The council will continue to assess the creditworthiness of the newly formed entities as outlined above, and those with sufficiently high ratings will be considered for investment purposes.

7.3 Borrowing in Advance

The Local Government Investments (Scotland) Regulations 2010 require local authorities to set out their approach to borrowing in advance in the Treasury Management Plan. Borrowing in advance is defined in the Regulations as any borrowing undertaken that results in total external debt exceeding the capital financing requirement (CFR) for the following twelve month period.

The council will not borrow more than, or in advance of its needs, purely in order to profit from the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the council can ensure the security of funds temporarily invested. Any advance borrowing will be reported as part of the next Treasury Management report to the Council, however it is not planned that the council will borrow in advance during 2019/20 due to the current low interest rate environment creating a cost of carry, meaning that the cost of borrowing funds in advance would far outweigh any interest that would be received by investing the funds, and due to the limited number of counterparties available.

7.4 Investment Plans

In 2019/20, the general services capital programme will be partially funded by application of the capital fund. By using the fund, the level of investment held by the council will reduce. The level of investment at the end of 2019/20 is forecast to be £117 million compared to £126 million at the end of 2018/19. There will be fluctuations in the level of investment during the year arising from cash flow requirements and new borrowing decisions. The council’s policy of investing only with appropriately rated UK banks and building societies and AAA rated money markets is considered to be risk averse, particularly in the light of the recapitalisation of certain UK banks by the UK Government.

The council's estimated cash balance for each of the next three years is shown below:

	2019/20 £m	2020/21 £m	2021/22 £m
Cash Balances Managed by the Authority			
1 April	125.5	116.5	110.4
31 March	116.5	110.4	94.8
Change in year	(9.0)	(6.1)	(15.6)

Current investment rates vary from below 0.75% for short periods to just above 1% for investments of a year. Rates continued to be low in 2018/19, with the most attractive rates in the market currently achieving 0.94%.

The forecasts for base rate increases continue to be open to considerable uncertainty, depending on the pace of the UK and European economic recovery. This is recognised in the forecast increase of the bank rate in mid-2019, after the increase from 0.50% to 0.75% in 2018. Based on the predicted continued period of low investment rates, the council will weight investments to longer periods, as much as possible within cash flow considerations, with a view to locking in higher rates of return than may be available from current short term investment rates. As the council currently has a large value of balances and reserves, there is no liquidity risk associated with securing longer term investments. To date, investments with a maturity of greater than a year have only been in government backed banks to ensure security of funds.

7.5 Permitted Investments

The Local Government Investments (Scotland) Regulations 2010 require local authorities to specify the investments that will be used in the forthcoming financial year. Any investment not listed as a permitted investment within the Treasury Management Plan will not be in accordance with the Regulations and will as a result be ultra vires.

Investments are subject to a number of risks which require to be effectively managed. The risks, and the controls to mitigate them, are summarised as follows:

- **Credit and Counterparty Risk Management** – this is the risk of a counterparty failing to meet its contractual obligations, effectively the risk of default. The council has always invested with appropriately rated UK banks and building societies. The council also uses AAA rated money market funds and other local authorities, as these are regarded as unlikely to default. This policy is considered risk averse particularly in the light of the financial support provided by the UK government to the UK banking sector. There will be no change to this policy although previous rating updates have severely constrained available counterparties.

- **Liquidity Risk Management** – this is the risk that cash will not be available when required creating additional unbudgeted costs. The council has effective cash flow forecasting up to twelve months in advance, which accurately forecasts the cash requirements. A proportion of the council's reserves and balances are expected to be used in 2019/20, with drawdowns being built into the council's medium and long term cash flow forecasts. The use of highly liquid money market funds, and the council's overnight account for some shorter term investments, also ensures that this risk is minimised.

- **Market Risk** – this is the risk to the capital amount of the investment, effectively creating a loss of capital (i.e. the council would not receive back the amount originally invested). The council will not invest in any product which risks the value of the capital sum. For certificates of deposit, the council will hold certificates until maturity to ensure that the full amount invested is returned to the council.

- **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. The council has set limits for its fixed and variable rate exposure in its Treasury Indicators and manages this risk by having a view of the future course of interest rates and having a treasury management strategy which aims to maximise investment earnings consistent with control of risk and seeks to minimise expenditure on interest costs on borrowing.

- **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 council will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

Appendix 3 details the permitted investments and maximum amounts that can be invested in them. It also includes reference to associated treasury risks and mitigating controls. Permitted investments include current investments in long term investments, share capital in companies and loans to third parties. Following a review under the International Financial Reporting Standards (IFRS), the council does not have any investment properties.

The maximum amounts that can be invested are summarised as follows:

- **Term Deposits and Bonds in UK Banks & Building Societies (Up to One Year)**
  The maximum amount that can be invested is 100%. The council has primarily invested in this sector to date, however money market funds have increasingly been used for temporary increases in balances.

- **Term Deposits and Bonds in UK Banks & Building Societies (One to Two Years)**
  The maximum investment in this category is £35 million as agreed by Council on 15 October 2013. As noted previously, the majority of the council's investments represent cash backed funds and reserves of which only a proportion is forecast to be used in the next three years. Consequently, a proportion of these core funds could be invested for periods of between one and two years. Investment will be restricted to nationalised or part nationalised banks to minimise credit and counterparty risk, whilst also increasing the potential yield on investments in the current low rate environment.

- The council only has one long term investment of £25,000 in Lothian Buses plc, which was inherited on the disaggregation of Lothian Regional Council in 1996. As these shares are not actively traded, there are no plans to sell this asset.

- The council owns share capital of £50 in one joint venture (West Lothian Recycling Ltd).

- Loans to home owners through the Empty Homes Loans Fund to make their property habitable. To date no loans have been issued under the scheme.

- Investment in West Calder High School DBFMCo Ltd to deliver a new West Calder High School through the Schools for the Future Programme. The maximum level of investment by the council would be £100 in equity, with the subordinated debt element being 1% of the total eligible cost of construction. It is expected that the maximum level of subordinated debt will be £350,000.

7.6 Investment Counterparties

Appendix 4 details current authorised institutions, their investment limits and investments made at 31 January 2019. Although the range of counterparties has diminished slightly because of previous counterparty movements, there are no further changes proposed to the current counterparty lists at this stage. Officers will continue to monitor progress and liaise with Link Asset Services to ensure the security of the council's funds.

8.0 DEBT RESCHEDULING

Debt rescheduling involves the reorganisation of existing debt to reduce the interest charge and improve the maturity profile of outstanding debt.

Following the introduction of different rates for new borrowing and the early repayment of debt, an increase in the spread of rates has made debt rescheduling uneconomic. This significantly restricts the prospects for debt rescheduling, therefore it is unlikely that there will be opportunities to reschedule long term fixed rate PWLB debt to short variable and temporary debt during 2019/20.

9.0 CONCLUSION

The Treasury Management Plan for 2019/20 complies with the updated Treasury Management and Prudential Codes and the Local Government Investments (Scotland) Regulations 2010. The Council is asked to approve the plan which will be used for all treasury management activities in 2019/20.

Donald Forrest
Head of Finance and Property Services
19 February 2019

Appendix 1

PRUDENTIAL INDICATORS 2019/20

The following treasury indicators were presented to Council today as part of the 2019/20 to 2022/23 Revenue Budget plan.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Code sets eight prudential indicators designed to support and record local decision making. The following describes the purpose of key indicators and the implications for West Lothian Council of the proposed levels, values and parameters.

CAPITAL EXPENDITURE INDICATOR – Capital Financing Requirement

Purpose of the Indicator
The capital financing requirement measures the council's underlying need to borrow for a capital purpose. This is the council's total outstanding debt required to finance planned capital expenditure, including long term financing liabilities.

	2017/18 £'000 Actual	2018/19 £'000 Estimate	2019/20 £'000 Estimate	2020/21 £'000 Estimate	2021/22 £'000 Estimate
General Fund	469,619	458,775	446,580	448,577	444,721
Housing	212,358	238,698	262,855	282,888	282,681
Total	**681,977**	**697,473**	**709,435**	**731,465**	**727,402**

Implications
The capital financing requirement continues to rise throughout the period as the council's outstanding debt incorporates the additional borrowing required to finance the approved capital expenditure plans.

TREASURY & EXTERNAL DEBT INDICATOR – Authorised Limit for External Debt

Purpose of the Indicator
This limit provides a maximum figure to which the council could borrow at any given point during each financial year.

Authorised Limit for:	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Gross External Borrowing	724,431	764,946	768,624
Other Long Term Liabilities	60,122	57,257	55,721
External Debt	**784,553**	**822,203**	**824,345**

Implications
The limit is based on capital investment plans and treasury management policy and practice. It allows sufficient headroom for unanticipated movements and the limit will be reviewed on an ongoing basis throughout the year. The council's capital financing requirement outlined above is less than the authorised limit for each of the three years. If the authorised limit is liable to be breached, a report will be presented to Council with recommendations on how it can be managed.

TREASURY & EXTERNAL DEBT INDICATOR – Operational Boundary for External Debt

Purpose of the Indicator
This indicator is a management tool for in year monitoring and is lower than the authorised limit. It is based on an estimate of the most likely level of external borrowing.

Operational Boundary for:	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Gross External Borrowing	714,431	754,946	758,624
Other Long Term Liabilities	59,122	56,257	54,721
External Debt	**773,553**	**811,203**	**813,345**

Implications
This indicator is consistent with revised capital investment plans and with treasury management policy and practice. It is sufficient to facilitate appropriate borrowing during the financial year and will be reviewed on an ongoing basis.

TREASURY & EXTERNAL DEBT INDICATOR – Actual External Debt

Purpose of the Indicator
This is a factual indicator showing actual external debt for the previous financial year.

	31 March 2018 £'000
Actual External Borrowing	585,889
Actual Other Long Term Liabilities	64,241
Actual External Debt	**650,130**

TREASURY MANAGEMENT INDICATOR

This indicator intends to demonstrate good professional practice is being followed.

1. **Adoption of the CIPFA Treasury Management Code**

   The CIPFA Treasury Code was adopted on 25 March 1997 as an indication of good practice. In line with the fully revised Treasury Code, the Treasury Plan for 2019/20 is reported to the full Council for approval. The annual report on 2018/19 treasury activities will be presented to the Council in the first half of 2019/20.

2. **Upper limits for fixed and variable rate borrowing to 2021/22**

   The proposed limit for fixed rate borrowing is 100% and the proposed limit for variable rate borrowing is 35%. These limits mean that fixed rate exposures will be managed within the range of 65 to 100% and the maximum exposure to variable rate borrowing will be 35% of total debt. This is a continuation of current practice.

3. **Maturing structure of fixed rate borrowing for 2019/20**

These parameters control the extent to which the council will have large concentrations of fixed rate debt needing to be replaced at times of possible uncertainty over interest rates. The limits for fixed rate borrowing are as follows:

	Proposed Upper Limit	**Proposed Lower Limit**
Under 12 months	35%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and over	100%	25%

4. **Total principal sums invested for periods longer than 365 days**

The Local Government Investment (Scotland) Regulations 2010 allows investments for periods longer than 365 days. Consistent with the decision of the Council on 15 October 2013, the maximum that can be invested is £35 million to ensure security of funds.

The treasury management indicator confirms sound professional practice is being followed by the council in undertaking treasury management. The proposed values and parameters will provide sufficient flexibility in undertaking operational treasury management.

Appendix 2

OUTLOOK FOR INTEREST RATES

Link Asset Services View interest rate forecast – January 2019

(%)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Bank Rate	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%
5yr PWLB	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%
10yr PWLB	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%
50yr PWLB	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%

Capital Economics interest rate forecast – January 2019

(%)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Bank Rate	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%
5yr PWLB	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%
10yr PWLB	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%
25yr PWLB	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%
50yr PWLB	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Cash Investments up to one year				
Term Deposits and Bonds – UK Banks and Building Societies	Equivalent to Fitch's rating of FI short term A long term	Up to 100%	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all three rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required. Also use overnight account for daily access to funds.
Term Deposits – Local Authorities and Public Bodies	Local Authorities & Public Bodies are not awarded credit ratings	20%	Counterparty risk is very low as this is considered UK Government debt and there is no risk to value.	No controls required as investment is with the UK Government and has minimal risk.
Money Market Funds	AAA	35%	Pooled cash investment vehicle with very low counterparty, liquidity and market risk.	The council will only use funds with a constant net asset value or low volatility net asset value to ensure minimal risk to market value. Funds required to be AAA rated to limit counterparty risk and instant access to ensure liquidity.
Debt Management Agency – Deposit Facility	UK Government	20%	Minimal counterparty or liquidity risk as deposit is with the UK Government.	No controls required as investment is with the UK Government and has minimal risk
Treasury Bills	UK Government	20%	Minimal counterparty or liquidity risk as deposit is with the UK Government. Potential market risk due to longer term movements in interest rates.	No general controls required as investment is with the UK Government. All investments are short term and held to maturity therefore minimal risk to value from resale on secondary market.

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Cash Investments up to one year				
Certificates of Deposit	Equivalent to Fitch's rating of FI short term A long term	20%	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all three rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required. Deposit will be held to maturity to ensure that the full amount invested is returned to the council. Investments will only be for periods of three to twelve months.
Cash Investments between one year and up to two years				
Term Deposits and Bonds – UK Banks and Building Societies	Nationalised or part nationalised UK Banks	£35 million	There is minimal risk to the value of principal invested. Consideration needs to be given to credit ratings to ensure appropriate counterparties are used. Liquidity risk that funds are not available when required.	Adoption of lowest rating from all three rating agencies to determine creditworthy counterparties. Cash flow forecasting undertaken to identify when funds will be required.
Non Treasury Investments				
Long Term Investment - £25,000 £1 shares in Lothian Buses plc	This is the share of Lothian Buses plc allocated to the council on the disaggregation of Lothian Regional Council in 1996	£25,000 £1 shares	This is a service investment which may exhibit market risk.	Shares will not be sold therefore market changes will have no impact. Ownership is supported by service requirements and must be approved by elected members.

Appendix 3

WEST LOTHIAN COUNCIL PERMITTED INVESTMENTS

Permitted Investment Instrument	Minimum credit rating	Maximum Percentage of Total Investments	Treasury Risks	Mitigating Controls
Non Treasury Investments				
£50 of £1 shares in West Lothian Recycling Ltd	The council owns 50% of the issued share capital of the company which is a joint venture with Tarmac	£50 £1 shares	This is a service investment which may exhibit market risk.	Shares will not be sold therefore market changes will have no impact. Ownership is supported by service requirements and must be approved by elected members.
Loans to Third Parties – Small Business Loans	Small amounts not subject to credit ratings	At 31 March 2018, there were no outstanding loans.	Counterparty and market risk where the funds invested are not returned.	Close administration and ongoing monitoring of receipts. Award criteria established by service.
Loans to Third Parties – Empty Homes Loan Fund	Small amounts not subject to credit ratings	£150,000 or total funding made available from Scottish Government	Counterparty and market risk where the funds invested are not returned but council has to repay funding to Scottish Government.	A robust procedure is in place for the monitoring and collection of empty homes loans.
West Calder High School DBFMCo Ltd Equity and Subordinated Debt	DBFM company established to provide new West Calder High School by HUB South East Ltd (HUBco) through Schools for the Future Programme	Equity Subscription - £100 Subordinated debt – maximum of 1% of the total eligible cost of construction (£350,000)	This is a service investment which may exhibit market risk. If the DBFM company does not perform and fails to deliver on agreed service objective, the subordinated debt element is at risk.	Shares will not be sold therefore market changes will have no impact. Investment is directly linked to delivery of the new West Calder High School. Ownership is supported by service requirements and must be approved by elected members.

Appendix 4

APPROVED ORGANISATIONS FOR INVESTMENT

	Current Investment Limit £	Investment at 31 Jan 2019 £
Council Bankers		
Lloyds Banking Group (inc Bank of Scotland)	**70,000,000**	52,718,000
WLC Rating Category 1*	**22,000,000**	
No institutions in this category		0
WLC Rating Category 2*	**19,500,000**	
No institutions in this category		0
WLC Rating Category 3*	**17,000,000**	
HSBC Bank plc		0
WLC Rating Category 4*	**14,500,000**	
No institutions in this category		0
WLC Rating Category 5*	**10,000,000**	
No institutions in this category		0
WLC Rating Category 6*	**7,000,000**	
Barclays		0
Goldman Sachs		7,000,000
Nationwide Building Society		0
Santander UK plc		7,000,000
Standard Chartered		5,000,000
Local Authorities, Public Bodies & Debt Management Office**	**20,404,032**	
Maximum of 20% of total investments		
All UK Local Authorities		0
UK Public Bodies		0
Debt Management Office – Deposit Account		0
Treasury Bills		0
UK Part Nationalised Banks	**35,000,000**	
Royal Bank of Scotland		0
National Westminster		10,000,000
Money Market Funds – AAA rated***	**35,707,056**	
Maximum of 35% of total investments		20,000,000
Other Permitted Investments		
West Calder High School DBFMCo Ltd	**350,000**	302,159
	TOTAL	**102,020,159**

* As rated by the lowest credit rating of the three credit rating agencies Fitch, Moody's and Standard & Poors.

** This limit fluctuates according to total investments. Based on current investments of £102.020 million, the limit would be £20.4 million.

*** This limit fluctuates according to total investments. Based on current investments of £102.020 million, the limit would be £35.7 million.