7. REVIEW OF TREASURY MANAGEMENT ACTIVITY 1 APRIL – 30 SEPTEMBER 2017

REPORT OF:	Peter Stuart, Head of Corporate Resources
	Email: pamela.coppelman@adur-worthing.gov.uk Tel: 01903 221236
Wards Affected:	All
Key Decision	No

PURPOSE OF REPORT

1. The report attached as Appendix 1 sets out the Council's treasury management activity for the half year to 30 September 2017.

SUMMARY

2. All transactions are in order and the performance of the service has met the requirements of the Service Level Agreement (SLA) with our shared services provider.

RECOMMENDATIONS

3. **The Committee is requested to note the contents of the report**:

   (i) that no new borrowing has been necessary in the 6 months to 30th September 2017 and the outstanding borrowing has reduced from £22.98m at 31 March 2017 to £12.84m

   (ii) the increase in investments from £34.62m at 31 March 2017 to £37.92m at 30 September 2017 (both figures exclude the £6m investment in the CCLA Local Authorities' Property Fund); and

4. **The Committee is requested to approve addition of Goldman Sachs International Bank to the list of approved counterparties, for a maximum investment of £4m and a maximum period of 5 years**.

BACKGROUND

5. The Treasury Management function of this Council has been provided by Adur and Worthing Councils as a shared service since October 2010. This has enabled the cost of the service to be reduced whilst giving access to specialist advice and the administration skills of a larger authority. The SLA was extended for a further three years from 18th October 2016.

6. The 2017-18 Treasury Management Half Year Report produced by the Group Accountant (Strategic Finance) is attached at Appendix 1. Members should note that this report format and level of detail is similar to that presented to the other authorities in the shared service and whilst it may appear to contain much in the way of industry knowledge, it would reward careful reading by those with an interest.

BACKGROUND

7. For those Members seeking a summary, the key points are that the shared service has adhered to all borrowing limits and counterparty lending limits approved in the Treasury Management Strategy Statement ; interest earned on investments is slightly higher than forecast, whilst interest on borrowing is in line with the budget.

8. The Group Accountant would welcome questions and queries from Members using the contact details above.

POLICY CONTEXT

9. The presentation of this report fulfils the requirements under the Council's treasury management policy to produce a half year report. Providing transparency and approval of the strategies contained in this report is an important part of the Council's statutory role. Treasury Management has become increasingly topical given the nature of the world's financial markets in recent years, and Members are expected to have a basic understanding of how the Council uses its reserves and cash flows which are in the stewardship of the Head of Corporate Resources.

OTHER OPTIONS CONSIDERED

10. None – this report is statutorily required.

FINANCIAL IMPLICATIONS

11. This report has no quantifiable financial implications. Interest payable and interest receivable arising from treasury management operations, and annual revenue provisions for repayment of debt, form part of the revenue budget but are not required to support the provision of services.

RISK MANAGEMENT IMPLICATIONS

12. This report has no specific implications for the risk profile of the Authority.

EQUALITY AND CUSTOMER SERVICE IMPLICATIONS

13. None

BACKGROUND PAPERS

- Treasury Management Strategy Statement & Annual Investment Strategy 2017/18 to 2019/20 (March 2017), and Review of Treasury Management Activity 2016/17 (September 2017)

- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, November 2011)

- The Prudential Code for Capital Finance in Local Authorities (CIPFA, May 2013). Department for Communities & Local Government Investment Guidance (Revised) April 2010)

- Capita Asset Services report template (April 2017)

APPENDIX 1

1. SUMMARY

This report summarises the Council's treasury management for the half year to 30 September 2017. The presentation of this report fulfils the requirements under the Council's treasury management policy.

2. BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3. INTRODUCTION

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

3. INTRODUCTION

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

4. THE ECONOMY AND INTEREST RATES

The following commentary has been supplied by ***Capita Asset Services Ltd****, the professional consultants for the Council's shared treasury management services provider. The context is significant as it describes the backdrop against which treasury management activity has been undertaken during the year.*

4.1 Economics update

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two year's time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation.

4. THE ECONOMY AND INTEREST RATES

4.1 Economics update

This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

4. THE ECONOMY AND INTEREST RATES

4.2 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

At the November MPC meeting Bank Rate was increased by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to increase Bank Rate only twice more in the next two years to reach 1.0% by 2020. As this was the first increase in Bank Rate for a decade, the MPC was right to avoid alarming consumers and financial markets and to be very reassuring about the pace of future increases.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

5. TREASURY MANAGEMENT STRATEGY STATEMENT and ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this Council on 29 March 2017. Some revision is required in the light of economic and operational movements during the year and these amendments are shown in the following tables.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans
- How these plans are being financed
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow
- Compliance with the limits in place for borrowing activity

6.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Total capital expenditure	2.784	1.461	3.393

6.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

It is no longer anticipated that the £10.9m capital receipt will be received in 2017/18.

	2017/18 Original Estimate	2017/18 Revised Estimate
	£m	£m
Total Capital Expenditure	2.784	3.393
Financed by:		
Capital receipts	10.900	0.000
Capital grants, S106 etc	1.213	1.982
Reserves and contributions	1.571	1.411
Total financing	13.684	3.393
Borrowing requirement	(10,900)	0.000

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It is no longer anticipated that the £10.9m capital receipt will be received in 2017/18, consequently the CFR will be higher than forecast in the TMSS.
The table also shows the expected debt position over the period, which is termed the Operational Boundary. "Other long term liabilities" includes finance leases.

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Prudential Indicator			
Capital Financing Requirement			
CFR – non housing	14.595	25.547	25.357
Net movement in CFR	(11.279)	(0.189)	(0.379)
Prudential Indicator			
The Operational Boundary for external debt			
	Op Boundary	**Actual**	**Op Boundary**
Borrowing	28.0	12.759	28.0
Other long term liabilities	1.0	0.08	1.0
Total debt (year end position)	29.0	12.839	29.0

6.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent. The Head of Corporate Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2017/18 Original Estimate	Actual at 30 Sept 2017	2017/18 Revised Estimate
	£m	£m	£m
Borrowing	12.698	12.759	12.698
Other long term liabilities	0.000	0.080	0.000
Total debt	12.698	12.839	12.698
CFR (year end position)	14.595	25.547	25.357

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.4 Limits to Borrowing Activity

Authorised Limit for external debt	2017/18 Original Indicator	Actual at 30 Sept 2017	2017/18 Revised Indicator
	£m	£m	£m
Borrowing	30.0	12.759	30.0
Other long term liabilities	1.0	0.080	1.0
Total	31.0	12.839	31.0

7 INVESTMENT PORTFOLIO 2017/18

7.1 Investment performance

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts in section 4.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

Excluding £6m in the Local Authority Property Fund, the Council held £37.92m of investments as at 30 September 2017, (£34.62m at 31 March 2017) and the investment portfolio yield for the first 6 months of the year is 0.85% p.a. against a benchmark rate of 0.53% for 12 month deposits (supplied by Capita Asset Services).

The Head of Corporate Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2017/18.

The Council's budgeted investment return for 2017/18 is £308k and performance for the year to date is marginally above budget.

7.2 Investment counterparty criteria

Several of the banks and building societies on the approved investment institutions list in the Treasury Management Strategy Statement for 2017/18 are either not in the market for borrowing from local authorities or are offering very poor interest rates. Goldman Sachs International Bank is UK registered and is 'A' rated by the credit rating agencies. Adur and Worthing Councils already include this bank on their approved list and it is proposed that Mid Sussex District Council adds Goldman Sachs International Bank, with a maximum investment of £4m and a maximum period of 5 years (in line with the other UK banks on the list). This would also allow for improved diversification of investments.

7 INVESTMENT PORTFOLIO 2017/18

7.3 Investments at 30 September 2017

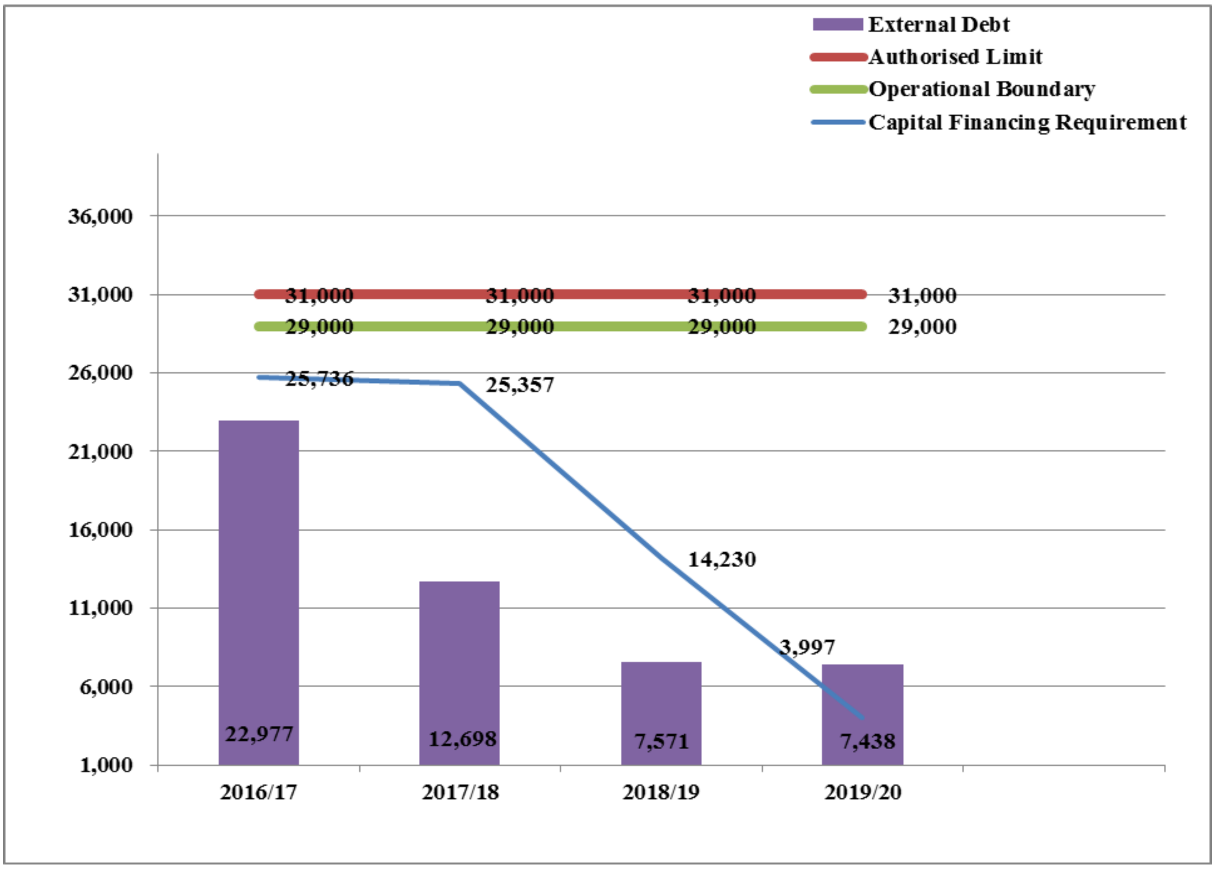
Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate	Long Term Rating
Barclays Bank	29.11.16	28.11.17	£1,000,000	0.74%	A
Barclays Bank	11.09.17	10.09.18	£1,000,000	0.53%	A
Barclays Bank	19.09.17	18.09.18	£1,000,000	0.66%	A
Blackrock MMF	n/a	n/a	£10,000	var	AAA
Cambridge Building Society	10.01.17	09.01.18	£2,000,000	0.75%	Not on Credit List
Cambridge Building Society	17.01.17	16.01.18	£1,000,000	0.75%	Not on Credit List
Cheshire West & Chester C'cil	20.12.13	20.12.18	£2,000,000	2.30%	n/a
Federated Investments MMF	n/a	n/a	£1,490,000	var	AAA
Handelsbanken	n/a	n/a	£220,000	0.20%	AA
Invesco MMF	n/a	n/a	£200,000	var	AAA
Lloyds Bank	04.01.17	03.01.18	£1,000,000	0.90%	A+
Lloyds Bank	10.02.17	09.02.18	£1,000,000	0.90%	A+
Lloyds Bank	21.02.17	20.02.18	£1,000,000	0.90%	A+
London Borough of Islington	31.01.14	31.01.19	£1,000,000	2.30%	n/a
Monmouthshire Building Soc	03.05.17	02.11.18	£1,000,000	1.00%	Not on Credit List
Monmouthshire Building Soc	23.05.17	23.11.18	£1,000,000	1.00%	Not on Credit List
Monmouthshire Building Soc	05.09.17	05.03.19	£1,000,000	1.00%	Not on Credit List
National Counties B'ding Soc.	19.04.16	19.04.18	£2,000,000	1.50%	Not on Credit List
National Counties B'ding Soc.	04.04.17	03.04.18	£1,000,000	0.77%	Not on Credit List
Newcastle Building Society	05.07.17	04.07.18	£2,000,000	0.80%	Not on Credit List
Newcastle Building Society	05.09.17	04.09.18	£1,000,000	0.80%	Not on Credit List
Nottingham Building Society	16.05.17	15.05.18	£1,000,000	0.76%	Baa1
Nottingham Building Society	05.09.17	05.09.19	£2,000,000	0.95%	Baa1
Principality Building Society	27.02.17	26.02.18	£1,000,000	0.75%	BBB+
Principality Building Society	13.03.17	12.03.18	£1,000,000	0.75%	BBB+
Principality Building Society	11.04.17	10.04.18	£1,000,000	0.74%	BBB+
Progressive Building Society	07.12.16	06.12.17	£1,000,000	0.75%	Not on Credit List
Progressive Building Society	04.01.17	03.01.18	£1,000,000	0.75%	Not on Credit List
Progressive Building Society	20.04.17	18.04.19	£1,000,000	1.02%	Not on Credit List
Skipton Building Society	10.03.17	09.03.18	£1,000,000	0.75%	A-
Skipton Building Society	14.03.17	13.03.18	£1,000,000	0.75%	A-
Skipton Building Society	11.04.17	10.04.18	£1,000,000	0.75%	A-
West Bromwich B'ding Soc.	28.06.17	27.06.18	£2,000,000	0.78%	B1
West Bromwich B'ding Soc.	05.09.17	04.09.18	£1,000,000	0.81%	B1
TOTAL			**£37,920,000**		

8. BORROWING

The Council's revised Capital Financing Requirement (CFR) for 2017/18 is £25.357m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 6.4 shows the Council has borrowings of £12.839m. Capital expenditure in 2017/18 is funded from grants, capital receipts, contributions, reserves and revenue contributions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

8. BORROWING

No new external borrowing was undertaken from 1 April to 30 September 2017 and it is not anticipated that further borrowing will be undertaken during this financial year.
The graph below shows the relationship between the Capital Financing Requirement, actual external debt, the Operational Boundary and the Authorised Limit for borrowing.



9 DEBT RESCHEDULING

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

10 OTHER

10.1 Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.
A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

10 OTHER

10.2 MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

APPENDIX 2

APPROVED INVESTMENT INSTITUTIONS IN THE 2017/18 TREASURY MANAGEMENT STRATEGY STATEMENT

Specified Investments identified for use by the Council

New specified investments will be made within the following limits:

(a) **Banks (Approved Investment Regulation 2 (b))**

Major U.K. and European Banks and their wholly-owned subsidiaries meeting the Council's approved investment criteria.

	Counterparty	Group	Individual Sum and Maximum Period	
1	**HSBC Bank Group:**	**£5m**		
	• HSBC Bank plc		£4m	5 years
2	**The Royal Bank of Scotland Group:**	**£5m**		
	• The Royal Bank of Scotland plc		£4m	5 years
	• National Westminster Bank plc		£4m	5 years
	• Ulster Bank Belfast Limited		£1m	1 year
3	**Lloyds TSB Group:**	**£5m**		
	• Lloyds Bank plc		£4m	5 years
	• Halifax plc		£4m	5 years
	• Bank of Scotland plc		£4m	5 years
	• HBOS Treasury Services plc		£4m	5 years
4	**Barclays Group:**	**£5m**		
	• Barclays Bank plc		£4m	5 years
5	**Santander UK**	N/A	£4m	5 years
6	**Clydesdale Bank**	N/A	£4m	5 years
7	**Svenska Handelsbanken AB**	N/A	£4m	1 year
8	**Close Brothers Ltd**	N/A	£4m	5 years

(b) **Building Societies (Approved Investment Regulation 2 (c))**

Building Societies (Assets in excess of £1 billion):

Rank	Counterparty	Individual	
		Sum	Period
1	Nationwide	£4m	3 years
2	Yorkshire	£4m	3 years
3	Coventry	£4m	3 years
4	Skipton	£3m	3 years
5	Leeds	£3m	3 years
6	Principality	£3m	3 years
7	West Bromwich	£3m	3 years
8	Newcastle	£3m	3 years
9	Nottingham	£3m	3 years
10	Cumberland	£3m	3 years
11	Progressive	£3m	3 years
12	National Counties	£3m	3 years
13	Saffron	£3m	3 years
14	Cambridge	£3m	3 years
15	Monmouthshire	£3m	3 years

(c) Money Market Funds (Approved Investment Regulation 2(2) and 2(3)(b))

Counterparty	Sum	
Invesco Aim – Sterling	£3m	For Short Term Operational Cash Flow Purposes
BlackRock Institutional Sterling Liquidity Fund	£3m	
Goldman Sachs Sterling Liquidity Reserve Fund	£3m	
Fidelity Institutional Cash Fund plc – Sterling	£3m	
Federated Short-Term Sterling Prime Liquidity Fund	£3m	

The limit for investing in any one Money Market Fund is £3 million. Total investments in Money Market Funds shall not exceed the higher of £9m or 25% of the total investment portfolio, for more than one week at any one time.

(d) **Local Authorities (Approved Investment Regulation 2 (i) and Schedule Part II)**

All the following local authorities mentioned in the Regulations

Schedule Part II Ref	**Details**	**Individual**	
		Sum	**Period**
1	*County Councils (England and Wales)*	*£3m*	*5 years*
2	*District Councils in England and Wales (including Borough, City, Metropolitan Borough Councils and Unitary Councils)*	*£3m*	*5 years*
3	*London Borough Councils*	*£3m*	*5 years*
4	*The Common Council of the City of London*	*£3m*	*5 years*
5	*The Council of the Isles of Scilly*	*£3m*	*5 years*
7	*Combined police authorities*	*£3m*	*5 years*
16	*Regional, Islands, or District Councils in Scotland*	*£3m*	*5 years*
17	*Joint boards under s.235(1) of LG (Scotland) Act 1973*	*£3m*	*5 years*
28	*District Councils in Northern Ireland*	*£3m*	*5 years*
29	*Police Authorities under s.3 Police Act 1964 as substituted by s.2 Police & Magistrates Courts Act 1994*	*£3m*	*5 years*

APPENDIX 2

NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies	√ √	 √	5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £9m or 25% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority – specifically the Local Authorities' Property Fund	√	√	These funds do not have a defined maturity date.	The higher of £4m or 25% of funds	No
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Subject to test
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Subject to test