Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Treasury Management 6-month Performance Review
Meeting/Date:	Council – 13th December 2017
Executive Portfolio:	Strategic Resources: Councillor J A Gray (Executive Member for Strategic Resources)
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

Best practice and prescribed treasury management guidance requires Members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The main purpose of the Treasury Management is to;

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are considered to be low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through the first half of 2017/18 influencing the Council's decision-making were;

- Economic growth forecasts are becoming more pessimistic as real wage growth turns negative.
- The Bank of England has kept the Bank Rate at 0.25% but an increase in the rate is increasingly likely.
- Market rates as a whole are very low in response to the fall in the Bank Rate, reducing the Council's ability to earn a return on investments without increasing the risk of the investments. The Council's average investing rate was 0.11%.
- Whilst there have been a small number of credit rate changes there is still

some concern about the stability of some financial institutions.

The Council's response to the key issues was;

- When the Council has surplus funds these will primarily be invested on a short term basis, in liquidity accounts and money market funds.

- Where possible to take a higher return without sacrificing liquidity.

- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing, based on gilt yields over a long period. The average interest rate paid was 3.47%.

- Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating, and credit default swap rates (the cost to insure lending).

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments that have occurred in the first half of 2017/18 and those investments made in 2016/17 are shown in **Appendix E.**

The returns from the CIS portfolio represent a higher return than those from financial institutions and in addition offer a less risky investment as they are backed by a physical asset.

The yield from the pre-CIS estate is 9.5%. The average yield from the CIS estate is 7.9%. The yield from the pre-CIS estate is higher because the values of these properties are lower (the yield is income divided by the property value).

So far the CIS purchases have been financed from the earmarked CIS Reserve. At the start of 2017/18 the balance on this reserve was £3.19m, and as at 30th September 2018 remained at £3.19m.

Recommendation(s):

The Council is recommended to

- consider the treasury management performance for the first 6 months of 2017/18.

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to update Members on the Council's treasury management activity for the first 6 months of the year, including investment and borrowing activity and treasury performance.

2. BACKGROUND

2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date in treasury management activity.

2.2 The Council approved the 2017/18 Treasury Management Strategy at its meeting on 22nd February 2017.

2.3 All treasury management activity undertaken during the first half of 2017/18 complied with the CIPFA Code of Practice and relevant legislative provisions.

2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A**. The main relevance to the Council is

- Economic growth slowed in pace in the first half of 2017/18.
- Real wage growth is negative, this is likely to restrain economic growth and activity in the second half of 2017/18
- Inflation is currently at its highest rate since June 2013, the fall in the value of the Pound resulting in higher import cost has had a large influence on this.
- The bank rate has been maintained at 0.25%. As a consequence the Council's borrowing costs will remain low but the opportunities to make significant returns on financial investments remain limited.
- There have been strong market reactions to the EU exit vote, with bond yields declining to record lows. The consequence being that PWLB lending rates will also remain low.

Performance of Council Funds

3.2 The following table summarises the treasury management transactions undertaken during the first 6 months of 2017/18 financial year and the details of the investments and loans held as at 30th September 2017 are shown in detail in **Appendix B**.

	Principal Amount £m	Interest Rate %
Investments		
at 31st March 2017	3.8	1.11
less matured in year	-114.0	
plus arranged in year	+121.6	
at 30th September 2017	11.40	0.47
Average Investments to 30 Sept	**10.1**	**0.32**
Borrowing		
at 31st March 2017	15.94	3.47
less repaid in year	-0.12	
plus arranged in year	+0.00	
at 30th September 2017	15.82	3.47
Average Borrowing to 30 Sept	**16.3**	**3.47**

Note;
Interest rates above are as at dated apart from averages, where these are the average for the half year.

Investments

3.3 The Council's strategy for 2017/18 was based on all investments being managed in-house. The investments were of three types:

- Time deposits, these are deposits with financial institutions that are of a fixed term and mature on an agreed date. In the Council's case usually in 1 to 2 weeks.

- Liquidity (call) accounts, these are accounts held with banks where there is no fixed term and the money can be deposited or withdrawn on the day.

- Money Market Funds, these are funds where investor's deposits are aggregated together and invested across a large range of financial products, giving a high degree of diversification.

3.4 The average rate of interest on all investments was 0.32%, 0.21% above the 7 day LIBID (London Interbank Bid Rate) benchmark rate of 0.11%, this represents a return of over three times the bench-mark rate. This good performance was due to £1.080m of the investments being locked into higher rates before the year started together with the use of Money Market Funds.

3.5 When only short-term cash flow investment activity is considered, the rate of interest on investments was 0.11%, which has achieved the 7-day benchmark rate of 0.11%.

Borrowing

3.6 The Council's exposure to interest rate risk at the end of September was:

- £15.8m long term borrowing from the PWLB, at a weighted average rate of 3.47%.
- Short term borrowing at 30th September 2017 was nil.

3.7 The actual net investment interest (after deduction of interest receivable on loans) was £244,000 to 30 September 2017 against a forecast figure of £342,000 and the budget figure of £385,000.

3.8 During the first half of the year the Council has borrowed from the PWLB to finance the loans to Luminus, this is over a period of 31 years.

3.9 There was short-term borrowing of £9m during 2017-18, in order to meet the Council's cash flow requirements.

The Risk Environment

3.10 The changes to the environment in which investing takes place are detailed in **Appendix C** the main points to note are;

- Bail in legislation requiring investors to contribute to bank losses has replaced government bail outs. If a bank were to become insolvent then investors funds (including Councils), will be used to refinance the bank, in this circumstance the Council would lose a proportion of its investment. To mitigate this risk the Council's funds are invested for short periods, which means that funds can be withdrawn from that institution before it fails.

- Counter-party and credit rating updates; there were only a few credit rating changes and credit default (a type of loan insurance) rates have fallen, indicating slightly improved market confidence.

- MIFID2 is to be implemented in January 2018, Council's will be asked if they want to acquire professional status to meet this requirement they will need to demonstrate they have the required skills and experience. The Council is currently completing the required paperwork to fulfil the MIFID2 requirements. If the Council cannot meet these requirements it will reduce the direct investing options available, restricted to the use of bank deposits and use of the government's Debt Management Office deposits.

- The regulations covering money market funds are being tightened up, so that they must meet strict new criteria and minimum liquidity requirements. This will take effect in January 2019.

Risk Management

3.11 The Council's primary objectives for the management of its investments are to give priority to the **security** and **liquidity** (how quickly cash can be accessed) of its funds before seeking the best rate of **return**.

3.12 The Council manages security by investing short-term with highly-rated banks and building societies, as well as investing with local authorities in the UK which are deemed to be intrinsically safe.

3.13 In addition to this the Council makes significant use of a number of Money

Market Funds, where a large numbers of investors' funds, including the Council's, are aggregated and spread across a wide range of investments. The Council is therefore able to access a spread of investments across a number of funds not available if it were to invest on its own.

3.14 In order to manage liquidity the Council invests funds in call accounts or Money Market Funds, which provide instant access to funds.

3.15 The Council's priority has been security and liquidity, over the return on investments, which resulted in investments during 2016/17 generally being of short duration (the majority on call). The result of low interest rates across the market is that the margin gained from the benefit of investing for longer period does not out-weigh the potential costs of failure of the investment.

Compliance with Regulations and Codes

3.16 All the treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and relevant legislation.

3.17 The Code requires the Council to approve both Treasury Management and Prudential Indicators. Those for 2016/17 were approved at the Council meeting on 22nd February 2017. **Appendix D** shows the relevant prudential indicators and the actual or forecast for 30th September 2017, the table below is a summary of key indicators. CIPFA issued a consultation in the summer on proposed amendments to be made to the Code of Practice. The Council has responded to consultation giving its views on the proposed changes to the indicators. An emphasis is being placed on the use of local indicators, and the council is already making use of these for its CIS programme.

Prudential Management Indicators			
	2017/18 Estimate	**2017/18 Forecast**	**Impact on the Council**
Net capital expenditure	£8.8m	£9.5m	The forecast spend is higher than budget due to an estimated overspend on DFGs of £0.6m
Expenditure on interest and MRP (Minimum Revenue Provision)	11.4%	10.1%	As a result of underspends in 2016/17 the MRP is lower for 2017/18.
Capital Financing Requirement (CFR)	£43.7m	£44.1m	The CFR has edged higher due to the forecast overspend as a result of DFG demand.
	31/03/17	**30/09/17**	
Long-term borrowing total	£15.7m	£15.8m	Borrowing has increased to fund the series of loans to Luminus for the Langley Court development.
Treasury Management Indicators			
	2017/18 Limit	**2017/18 Actual**	
Authorised Limit for debt	£122.0m	£22.3m	The Council's debt has

Operational boundary for debt	£117.0m	£22.3m	increased as a result of loans to finance the Luminus loan, but is still within the approved limits
Upper limit on Fixed interest rate exposure Variable interest rate exposure	 £70.1m £30.0m	 £10.1m £10.2m	Investments made for less than 1 year have been classified as variable.
Borrowing repayment profile (10 years)	18%-100%	87%	The loan repayment profile has remained the same.
Investments longer than 364 days	£76.1m	£0m	Only short-term or instant access investments.

Commercial Investment Strategy (CIS)

3.18 The CIS business plan was approved in December 2015. The implementation of the CIS is a key part of the Council's strategy to generate additional income to assist in closing the Council's forecast gap in the revenue budget.

3.19 Opportunities for investments are being sought and evaluated on an on-going basis. During the first half of 2017/18, 31 potential CIS purchases have been evaluated. The results of this analysis are shown in table 7 in Appendix E giving if rejected, the reason for rejection.

3.20 The yields from the CIS assets are shown in Appendix E, as well as the yield from the existing commercial estate. The CIS Business Plan targeted returns as a minimum for land and building investment of between 6% and 9%. This has been achieved and exceeded in the case of Stonehill, Huntingdon. The returns from these investments are key to closing the Council's revenue funding gap, and represent a significantly higher return than can be achieved on investments with financial institutions.

3.21 A number of the indicators shown in **Appendix E** will not be relevant until the CIS Reserve is fully applied and borrowing is required to continue to purchase assets. When borrowing commences, these indicators will be calculated.

4. COMMENTS OF OVERVIEW & SCRUTINY

4.1 The Treasury Management Six Month Performance was presented to the Overview and Scrutiny Panel (Performance and Customers).

4.2 A Member expressed concern regarding Luminus' ability to pay back the loan the Council has given them in light of the merger. However the Panel were reassured that the loan is secured against property and that as a result of the merger, Luminus would be in a stronger financial position and more able to pay back the loan.

4.3 Members questioned the impact of the Commercial Investment Strategy (CIS) upon the Council's budget. The Panel was informed that the CIS produces in excess of £2m per annum which is income that does not need to be found via Council Tax.

5. RISKS

5.1 The risks arising from treasury management activities are highlighted in the report and are measured by reference to the prudential indicators in **Appendix D**.

6. WHAT ACTIONS WILL BE TAKEN

6.1 Treasury management activities will continue to be monitored, in order to mitigate security and liquidity risks.

7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

7.1 Treasury management activity is a corporate function of the Council and supports the achievement of the Councils three corporate priorities; consequently it is a key element in the budget setting and management process.

7.2 In addition, the Council's Treasury function directly contributed to the "Working with our communities" strategic theme (Corporate Plan 2014-2016) in that it provided loan finance to support an external partner (Luminus) to fund the construction of the Eden Place Care Facility in St. Ives, and continued to support the loan facility that was previously extended to Huntingdonshire Regional College.

8. LEGAL IMPLICATIONS

8.1 No direct, legal implications arise out of this report.

9. RESOURCE IMPLICATIONS

9.1 The resource implications relating to the net interested due to the council is explained in paragraph 3.7.

10. REASONS FOR THE RECOMMENDED DECISIONS

10.1 The treasury management activity continues to be monitored, to ensure that risks arising are mitigated.

11. LIST OF APPENDICES INCLUDED

Appendix A – Economic review (Source: Arlingclose)
Appendix B – Borrowing and Investments as at 30th September 2017
Appendix C – Risk Environment 2017-18
Appendix D – CIPFA Prudential Indicators
Appendix E – Commercial Investment Strategy Indicators
Appendix F – Glossary

BACKGROUND PAPERS
Working papers in Resources
CIPFA Treasury Management Code of Practice

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APPENDIX A

Economic Review of 2017/18	
Economic Growth Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of 2017.	**Local Context** A reduction in economic activity could have an adverse effect on the Council's trading operations (e.g. CIS, Markets, Car Parks, Building Control, Development Control). With the result that income may reduce. In addition there is likely to be a financial tightening by Government due to reduced tax receipts, potentially resulting in a reduction in public sector funding and expenditure
Inflation UK Consumer Price Inflation (CPI) index rose with the data print for September showing CPI at 3.0%, the highest rate since June 2013. The fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.	**Local Context** Inflationary pressures could start to effect council spending. As a result there could be pressure on some budgets where costs are rising. There may also be pressure in the MTFS to mitigate this pressure through changes in spending and income generation. The increase in Business Rates is set on the September RPI, so this will rise by 3.9%
UK Monetary Policy The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping	**Local Context** Increases in interest rates by the Bank of England to control inflation, will help to lift rates that the Council invests at in the medium term.

Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening; any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.	
Global Monetary policy In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.	
Market Reaction Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June, but then rose to 0.80% by the end of September. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%. The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end	**Local Context** Whilst the Council has no direct investments in shares, movements on the stock exchange tend to have an effect on the economy as a whole. With share price increases tending to make investors more confident and consequently aiding economic growth and potentially mitigating some of the growth issues mentioned above. The increase in gilts yields will have a direct effect on the Council if it wishes to borrow from the PWLB, as the rate of interest is set in relation to gilt yields. Higher yields mean higher borrowing rates.

of September. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September.	
Interest Rates Forecast The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted. This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.	**Local Context** Borrowing costs are likely to remain low for some time, but so are investing rates. Having a direct effect on the amount of interest the Council can earn from its investments. The longer the rates remain lower the rates become on investments as financial institutions strip out any margins.
Unemployment Rate The unemployment rate fell to 4.3%, the lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation.	**Local Context** The Council will find it harder to recruit suitably skilled staff, as the labour market get tighter.
Economic Outlook The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.	**Local Context** Challenging conditions in the economy will impact on the Council's services that are income earning.
Source of Data: Arlingclose Ltd	

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APPENDIX B

BORROWING AND INVESTMENTS AT 30 SEPTEMBER 2017

	Short-term Rating		Date Invested/ Borrowed	Amount		Interest Rate	Year of Maturity
	Fitch	Moody's		£m	£m		
Borrowing							
Short-term							
NIL							
Long-term							
PWLB			19/12/08	5.000		3.90%	2057/58
PWLB			19/12/08	5.000		3.91%	2058/59
PWLB			07/08/13	0.940		2.24%	2023/24
PWLB			25/11/15	0.736		3.28%	2046/47
PWLB			19/01/16	0.970		3.10%	2046/47
PWLB			21/03/16	0.485		2.91%	2046/47
PWLB			29/04/16	0.392		3.10%	2047/48
PWLB			02/06/16	0.318		2.92%	2047/48
PWLB			29/07/16	0.628		2.31%	2047/48
PWLB			23/09/16	0.489		2.18%	2047/48
PWLB			06/01/17	0.866		2.67%	2047/48
Total Borrowing					**15.824**		
Investments In-House							
Investments							
NatWest Liquidity	F1	P2	30/09/17	0.905		0.05%	On-call
Cambridge Building Society			30/09/17	0.100		0.15%	On-call
Coventry Building Society			15/08/17	1.500		0.12%	Fixed
Bournemouth BC			30/09/17	1.500		0.12%	Fixed
Handelsbanken	F1+	P1	30/09/17	1.250		0.15%	On-call
Barclays	F1	P1	30/09/17	1.500		0.05%	On-call
Blackrock	Not rated	MMF	30/09/17	0.500		0.18%	MMF
CCLA	AAA	MMF	30/09/17	0.500		0.18%	MMF
Federated	Not rated	MMF	30/09/17	0.500		0.15%	MMF
Insight	Not rated	MMF	30/09/17	1.000		0.20%	MMF
Legal and General	Not rated	MMF	30/09/17	0.500		0.20%	MMF
Standard Life	AAA	MMF	30/09/17	0.500		0.17%	MMF
Total Short Term Investments					**10.255**		
Loans to Other Organisations							
Huntingdon Regional College	Not rated			1.101		3.34%	2023/24

Huntingdon Gym	Not rated			0.061		5.13%	2023/24
					1.162		
Total Investments					**11.417**		
CCLA Property Fund			28/01/16		**2.500**		
CCLA Property Fund			27/02/17		**1.500**		
Loans to Luminus							
Luminus-1	Not rated		26/11/15	0.750		4.78%	2047/48
Luminus-2	Not rated		19/01/16	1.000		4.60%	2047/48
Luminus-3	Not rated		21/03/16	0.500		4.41%	2047/48
Luminus-4	Not rated		29/04/16	0.400		4.60%	2047/48
Luminus-5	Not rated		02/06/16	0.325		4.42%	2047/48
Luminus-6	Not rated		29/07/16	0.650		3.81%	2047/48
Luminus-7	Not rated		23/09/16	0.500		3.68%	2047/48
Luminus-8	Not rated		06/01/17	0.875		4.17%	2047/48
Total Loans					**5.000**		
Total Investments					**18.917**		
Net Investments					**5.069**		

Definition of Credit Ratings

Fitch	Rating	Definition
Short term	**F1**	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
	F2	Good rated intrinsic capacity for timely payment of financial commitments.
	F3	Fair rated intrinsic capacity for timely payment of financial commitments.
Long-term	**AAA**	Highest credit quality organisations, reliable and stable. 'AAA' ratings denote the **lowest expectation of default risk.** They are assigned only in cases of exceptionally strong capacity for payment of financial commitments.
	AA	Very high credit quality. 'AA' ratings denote **expectations of very low default risk.** They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
	AA-	
	A	High credit quality. 'A' ratings denote e**xpectations of low default risk**. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
	A-	
	BBB	Good credit quality. BBB ratings indicate **expectations of low default risk**. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
Notes The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.		

APPENDIX C

Risk and Credit Environment 2017/18	
Bail In The risk arises from banks failing, regulation places the burden of losses on the banks investors. This is as opposed to a government a bail-out which is what happened at the last financials crisis in 2008.	**Local Context** Some public bodies will carry higher levels of long-term cash, and as a result need to invest long-term, the Council generally has cash that will be needed in the short-term and as a result places funds where they are accessible in the short-term.
MiFID II Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.	**Local Context** The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits. The Authority will meet the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status.
Money Market Funds The new EU regulations for Money Market	**Local Context** The Money Market Funds will be required

Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.	to meet stricter standards than those that are currently in place. Although as yet each fund has not released the details of how they will be progressing with this, the expectation is that the Money Market Funds that the Council uses will seek to meet the new standards and continue to be available for investing.
Credit Environment UK bank credit default swaps continued their downward trend, reaching three-year lows by the end of June. Bank share prices have not moved in any particular pattern. There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year.	**Local Context** The Council monitors credit ratings, these are used to make decision about which institutions to invest with, based on the parameters set within the Treasury Management strategy. The Council's investments are in the majority of short duration as a consequence, any adverse movements in credit ratings would be a signal to remove investments from those institutions.

APPENDIX D

CIPFA Prudential Indicators for Capital Finance in Local Authorities
Prudential Indications and Treasury Management Indications for 2017/18
Comparison of forecast results with limits.

PRUDENTIAL MANAGEMENT INDICATORS

1. Actual and Estimated Capital Expenditure.

	2017/18 Estimate £m	2017/18 Forecast £m
Gross	12.4	13.5
Net	8.8	9.5

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

2017/18 Estimate %	2017/18 Forecast %
11.4	10.1

3. The capital financing requirement.
This represents the estimated need for the Authority to borrow to finance capital expenditure less the estimated provision for redemption of debt (the MRP).

2017/18 Estimate £m	2017/18 Forecast £m
43.7	44.1

4. Net borrowing and the capital financing requirement.
Net external borrowing as at the 30th September 2017, was £15.8m, this is £28.3m less than the forecast capital financing requirement. Thereby confirming that the council has not borrowed for revenue purposes other than in the short-term for cash flow purposes.

5. The actual external long-term borrowing at 30th September 2017

£15.8m

6. Adoption of the CIPFA Code

The Council has adopted the 2011 edition of the CIPFA Treasury Management

Code of Practice.

TREASURY MANAGEMENT INDICATORS

7. The authorised limit for external debt.

This is the maximum limit for borrowing and is based on a worst-case scenario.

	2017/18 Limit £m	**2017/18 Actual £m**
Short-Term	26.0	6.0
Long Term	45.0	10.0
Other long-term liabilities (leases)	6.0	0.5
Total	**77.0**	**16.5**
Long-term for loans to organisations	**15.0**	**5.8**
CIS Investments giving a yield	**30.0**	**0.0**
Total	**122.0**	**22.3**

8. The operational boundary for external debt.

This reflects a less extreme position. Although the figure can be exceeded without further approval, it represents an early warning monitoring device to ensure that the authorised limit (above) is not exceeded.

	2017/18 Limit £m	**2017/18 Actual £m**
Short-Term	21.0	6.0
Long Term	45.0	10.0
Other long-term liabilities (leases)	6.0	0.5
Total	**72.0**	**16.5**
Long-term for loans to organisations	**15.0**	**5.8**
CIS Investments giving a yield	**30.0**	**0.0**
Total	**117.0**	**22.3**

Both of these actual results reflect the fact that long term rates were not considered low enough to borrow in anticipation of need

9. Exposure to investments with fixed interest and variable interest.

These limits are given as a percentage of total investments. Investments of less than 12 months count as variable rate.

	Limit	**Actual**
	£m	**As at**

		30.9.17
Upper limit on fixed interest rate exposure	70.1	10.1
Upper limit on variable interest rate exposure	30.0	10.2

10. Borrowing Repayment Profile

The proportion of 2017/18 borrowing that matured in successive periods.

Borrowing	Upper limit	Lower limit	Actual As at 30.9.17
Under 12 months	81%	0%	1%
12 months and within 24 months	81%	0%	2%
24 months and within 5 years	81%	0%	5%
5 years and within 10 years	82%	1%	5%
10 years and above	100%	18%	87%

11. Investment Repayment Profile

Limit on the value of investments that cannot be redeemed within 364 days.

	Limit £m	Actual £m
Limit on principal invested beyond year end (31 March 2017)	76.1	0

APPENDIX E

Commercial Investment Strategy Indicators

PRUDENTIAL MANAGEMENT INDICATORS

1. Actual and Estimated Capital Expenditure.

	2017/18 Estimate £m	2017/18 Forecast £m
Gross	30.0	30.0
Net	30.0	30.0

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

2017/18 Estimate %	2017/18 Forecast %
8.6	8.6

3. The capital financing requirement.

This represents the estimated need for the Authority to borrow to finance capital expenditure less the estimated provision for redemption of debt (the MRP).

2017/18 Estimate £m	2017/18 Forecast £m
26.4	26.8

4. Asset Investment and Yields

	Investment £m	Yield %
Existing Commercial Estate	20.80	9.5
Stonehill, Huntingdon	1.36	9.2
Wilbury Way, Hitchin	2.31	7.6
Shawlands Retail Park, Sudbury	6.89	7.0
CCLA Property Fund	4.00	4.0
Note: The yields for Stonehill, Wilbury Way, and Shawlands include initial investment costs, the existing estate yield does not.		

5. CIS Reserve Balance

	£m
Reserve Balance as at 31st March 2017	3.19
Investments	0.00
Balance at 30th September 2017	3.19

6. Loan to Value and Debt to Income Indicators

These indicators will be calculated when the CIS reserve has been exhausted and the CIS investment programme is financed by borrowing.

7. Analysis of Investment Propositions

Potential CIS investments are being continually investigated. The table below lists the 35 opportunities that were examined, and if they were not proceeded with, why.

Action	**No. of Cases**
Purchased	1
Rejected because;	
Missed Bidding	3
High Risk	11
Low Yield	5
Out Bid	3
Condition	2
Distance	2
Property Size	2
Other	6
Total	**35**

APPENDIX F

GLOSSARY

Bail in Risk
Bail in risk arises from the failure of a bank. Bond-holders or investors in the bank would be expected to suffer losses on their investments, as opposed to the bank being bailed out by government.

Bank Equity Buffer
The mandatory capital that financial institutions are required to hold, in order to provide a cushion against financial downturns, to ensure the institution can continue to meet it liquidity requirements.

Bank Stress Tests
Tests carried out by the European Central Bank on 51 banks across the EU. The tests put banks under a number of scenarios and analyse how the bank's capital holds up under each of the scenarios. The scenarios includes, a sharp rise in bond yields, a low growth environment, rising debt, and adverse action in the unregulated financial sector.

Bonds
A bond is a form of loan, the holder of the bonder is entitled to a fixed rate of interest (coupon) at fixed intervals. The bond has a fixed life and can be traded.

Call Account
A bank account that offer a rate of return and the funds are available to withdraw on a daily basis.

Capital Financing Requirement (CFR)
The CFR is a measure of the capital expenditure incurred historically, but has yet to be financed, by for example capital receipts or grant funding.

Counterparty
Another organisation with which the Council has entered into a financial transaction with, for example, invested with or borrowed from.

Credit Default Swaps (CDS)
A financial agreement that the seller of the CDS will compensate the buyer in the event of a loan default. The seller insures the buyer against a loan defaulting.

Credit Ratings
A credit rating is the evaluation of a credit risk of a debtor, and predicting their ability to pay back the debt. The rating represents an evaluation of a credit rating agency of the qualitative and quantitative information, this result in a score, denoted usually by the letters A to D and including +/-.

Gilts
Bonds issued by the Government.

LIBOR
London Interbank Offered Rate, is the rate at which banks are willing to lend to each other.

LIBID
London Interbank Bid Rate, is the rate at which a bank is willing to borrow from other banks.

Liquidity
The degree to which an asset can be bought or sold quickly.

Minimum Revenue Provision (MRP)
An amount set aside to repay debt.

Money Market Funds
An open ended mutual fund that invests in short-term debt securities. A deposit will earn a rate of interest, whilst maintaining the net asset value of the investment. Deposits are generally available for withdrawal on the day.

Public Works Loans Board (PWLB)
The PWLB is an agency of the Treasury, it lends to public bodies at fixed rates for periods up to 50 years. Interest rates are determined by gilt yields.