LICENSING & GENERAL PURPOSES COMMITTEE
30 JULY 2018

EXECUTIVE HEAD OF FINANCE
REPORT NO: FIN1823

TREASURY MANAGEMENT OPERATIONS 2017/18

SUMMARY:
Treasury management operations for 2017/18 are presented in accordance with strategic requirements. All treasury management activity during 2017/18 was carried out in accordance with the Annual Treasury Management Strategy and complied with the treasury and prudential indicators set out in that report, and with the Treasury Management Code of Practice*.*

RECOMMENDATIONS:
Members are requested to:

(i) Note the contents of this report in relation to the treasury management operations carried out during 2017/18

1 INTRODUCTION

1.1 There are three core elements within this report:

(a) Presentation of the Treasury Management operations for 2017/18
(b) An update on future changes to treasury management practices and schedules
(c) A summary of changes in capital expenditure

2 TREASURY MANAGEMENT OPERATIONS FOR 2017/18

2.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year. The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing best practice in accordance with CIPFA's recommendations.

2.2 The Council has invested substantial sums of money and is therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This section of the report covers treasury activity and the associated monitoring and control of risk.

2.3 Full Council originally approved the Annual Treasury Management Strategy for 2017/18 on 23 February 2017. However, subsequent substantial capital budget additions were approved during the financial year 2017/18, mainly in relation to the acquisition of regeneration properties. These additional capital budgets approved for 2017/18 had a fundamental effect on the Council's prudential indicators and Full Council on 22 February 2018 approved revisions to the 2017/18 prudential indicators within the Annual Treasury Management Strategy for 2018/19.

2.4 **Appendix A** shows the actual prudential indicators relating to treasury activities and capital financing for 2017/18 and compares these to the indicators set in the Annual Treasury Management Strategy for the year 2017/18.

Treasury Management Advice

2.5 The Council continued to engage the services of Arlingclose for independent treasury advice during the year 2017/18. Arlingclose provide specialist treasury support to 25% of UK local authorities. They provide a range of treasury management services including technical advice on debt and investment management and long-term capital financing. They advise on investment trends, developments and opportunities consistent with the Council's Treasury Management Strategy.

2.6 With the exception of pooled funds all investment activity is carried out by the Council's own treasury team with advice from Arlingclose, and having due regard to information from other sources such as the financial press and credit-rating agencies.

2.7 Pooled funds are managed at the discretion of the external fund managers associated with each fund. It should however be noted that whilst the funds are externally managed, the decision as to whether to invest lies solely with the Council in accordance with its Treasury Management Strategy.

2.8 The needs of the Council's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. During 2017/18, staff attended relevant workshops provided by Arlingclose and other service providers.

Economic Background

2.9 The Council's treasury management advisors have provided commentary on the economic background that prevailed during the year 2017/18. This commentary is provided at **Appendix B**.

Borrowing Activity in 2017/18

2.10 The Council commenced the financial year 2017/18 carrying £2.1m of borrowing obtained from the Enterprise M3 Local Enterprise Partnership (EM3). This sum was advanced in order to assist the temporary financing of some specific capital projects.

2.11 During 2017/18, an amount of £0.435 million was repaid to EM3 in accordance with the pre-agreed repayment schedule. The Council raised an additional £12 million short-term borrowing during the financial year. The need for this additional borrowing was in relation to an approved in-year increase in capital expenditure. Total borrowing therefore amounted to £14.1 million at 31st March 2018.

Investment Activity in 2017/18

2.12 The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The total income yield return on the Council's investments amounted to 2.96% for the financial year 2017/18 excluding capital gains and losses.

2.13 The rate of return has been calculated as (1) External pooled funds (income return for the past year, (2) Over investments (effective rate of investments held at the end of the financial year. It should be noted that it is a "snapshot" of returns for the year. For 2017/18, the Council continued to use secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits. Details of the Council's investment activity together with returns generated during 2017/18 are outlined as follows:

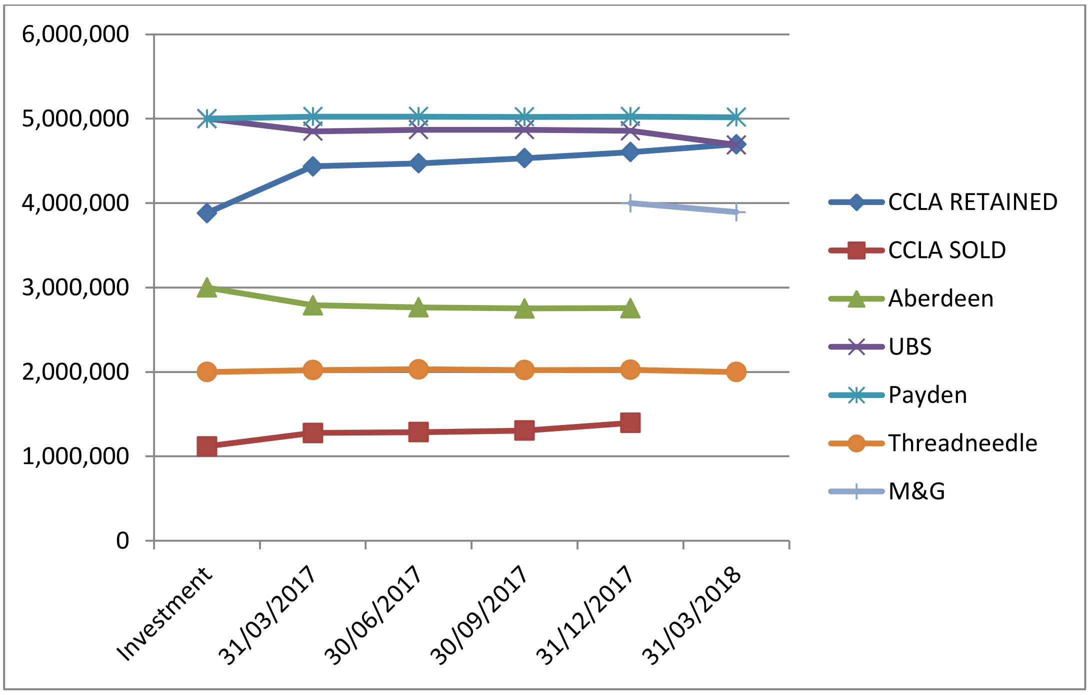
2.14 **Pooled Funds** – the Council's pooled funds have continued to experience some variations in performance during the year 2017/18.

Pooled Funds Capital Growth/Losses – Aggregation of the Council's pooled funds resulted in an overall net decrease in fair value for the year 2017/18 of around £51,000, although this net decrease is relatively modest compared to the overall investment sum (an aggregate increase of 0.2%).

The significant exceptions within this group are CCLA Property Fund showing exceptional growth of 29% since acquisition, but offset by a capital reductions for the UBS Multi-Asset Fund, which has declined by 7% since acquisition. Aberdeen Absolute Return Bond Fund, which has declined by 8% since acquisition, was sold in December 2017 to mitigate future predicted underperformance. The sale of this investment acquired at £3m resulted in a capital loss of £243K. To offset this loss on sale, Arlingclose advised a portfolio restructuring, involving the sale of a proportion of Rushmoor's highest performing investment (CCLA) and the purchase of an alternative fund. £1.1m holding in CCLA was sold resulting in a gain on sale of £279K producing a net gain of the combined sales of £36K. £4m was then placed in M&G's Corporate Bond. Since acquisition, the capital value of the Council's holding in the M&G Corporate Bond Fund has declined by 3%.

This group of investments are long term (3-5 year window) and monitoring of the capital value continues to be made on a monthly basis.

Movement in capital value of pooled funds during 2017/18



Pooled Fund Income Returns – The income returned by fund for the period to 31st March 2018 is analysed below:

- Payden & Rygel's Sterling Reserve Fund - £5 million investment. The Fund seeks to provide capital security, liquidity and income through investment in Sterling denominated investment-grade debt securities. The fund's performance for the 12 months to 31st March 2018 is 0.89% income return.

- CCLA's Local Authorities' Mutual Investment Trust - £5 million investment at commencement of the year, reduced to £3.9m in December 2017 as a result sale of £1.1m. The Property Fund is designed to achieve long-term capital growth and income from investments in the commercial property sector. The fund has returned 6.41% income during 2017/18.

- Aberdeen Absolute Return Bond Fund - £3 million investment at commencement of the year, Total holding sold in December 2017. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. The fund's performance for 2017/18 is a 1.13% income return.

- UBS Multi-Asset Income Fund - £5 million investment. This fund follows a strategy of reducing volatility exposure levels by spreading investments across a diversified range of asset classes. This fund has generated a 4.66% income return for the year.

- Threadneedle Strategic Bond Fund - £2 million investment. The fund aims to provide income and capital appreciation through investment grade and high yield bonds. This fund has generated a 4.60% income return during the period to 31st March 2018

- M & G Corporate Bond Fund - £4m invest in December 2017. This fund aims for a target total return of 3-5% from a combination of investment income or capital appreciation. This fund has generated a 0.85% income return during the period to 31st March 2018 (3% annualised).

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2.15 **Bonds** - debt instruments in which an investor lends money for a specified period of time at a fixed rate of interest. **Covered bonds** are conventional bonds that are backed by a separate group of loans (usually prime residential mortgages). When the covered bond is issued, it is over collateralised, with the pool of assets being greater than the value of the bond. During the year, one covered bond was redeemed. The Council is actively managing down its covered bonds, with all due for redemption in 2018/19.

2.16 **Other Investments** – During the year a number of other investments matured and were redeemed and the Council made no new investments:

2.17 The following table summarises deposit/investment activity during the year to 31st March 2018. Overall, there was a net decrease of £6.2m invested during the period.

Investment Counterparty	*Balance on 31/03/17 £m*	*Investments Made £m*	*Maturities/ Investments Sold £m*	*Balance on 31/03/18 £m*	*Avg Rate % and Avg Life (yrs)*
UK Local Authorities	*2.0*	*-*	*2.0*	*-*	*1.0% - 2 years*
Covered Bonds/ Floating Rate Notes	*6.5*	*-*	*(2.0)*	*4.5*	*(1.18%-1.47%)& - 1.3 Yrs*
AAA-rated Money Market Funds	*5.0*	*-*	*(1.8)*	*3.2*	*Varies daily – average 0.22%*
Pooled Funds:					
• *Payden*	*5.0*	*-*	*-*	*5.0*	*0.89*
• *CCLA*	*5.0*	*-*	*(1.4)*	*3.6*	*6.41*
• *Aberdeen Absolute*	*3.0*	*-*	*(3.0)*	*-*	*1.14*
• *UBS*	*5.0*	*-*	*-*	*5.0*	*4.66*
• *Threadneedle*	*2.0*	*-*	*-*	*2.0*	*4.60*
• *M & G*	*-*	*4.0*	*-*	*4.0*	*3.0*
TOTAL INVESTMENTS	*33.5*	*4.0*	*(10.2)*	*27.3*	
Increase/(Decrease)				*(6.2)*	

Additional information in relation to investments is contained in **Appendix C**.

2.18 The following charts illustrate the spread of investments by counterparty and maturity analysis. These illustrate continued diversity within the Council's portfolio:

Maturity Analysis as at 31st March 2018	Amount invested £m	%
Instant *	3.2	12
0-3 months	2.0	7
3-6 months	-	-
6-9 months	2.5	9
9-12 months	5.0	18
> 1 year	14.6	53
Total for all duration periods	**27.3**	**100**

* Instant refers to the use of Money Market Funds

3 TREASURY MANAGEMENT INDICATORS

3.1 The Treasury Management Code requires that local authorities set a number of indicators for treasury management performance. The Council has also adopted a voluntary measure for credit risk as set out in paragraphs 3.2 to 3.4.

3.2 Credit Risk (Credit Score Analysis): Counterparty credit quality is assessed and monitored by reference to credit ratings. Credit ratings are supplied by rating agencies Fitch, Standard & Poor's and Moody's. Arlingclose assign values between 1 and 26 to credit ratings in the range AAA to D, with AAA being the highest credit quality (1) and D being the lowest (26). Lower scores mean better credit quality and less risk.

3.3 The advice from Arlingclose is to aim for an A-, or higher, average credit rating, with an average score of 7 or lower. This reflects the current investment approach with its focus on security. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

3.4 The table below summarises the Council's internal investment credit score for deposits during the 2017/18. The Council's scores fall comfortably within the suggested credit parameters. This represents good credit quality deposits on the grounds of both size and maturity. The improved credit risk scores during the year reflect the increasing diversity within the Council's investment portfolio.

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
Q4 2016/17	2.97	AA	1.21	AAA
Q1 2017/18	3.08	AA	1.08	AAA
Q2 2017/18	3.46	AA	1.03	AAA
Q3 2017/18	3.63	AA-	1.05	AAA

3.5 **Interest Rate Exposure**: This indicator is set to monitor the Council's exposure to the effects of changes in interest rates. The indicator calculates the relationship between the Council's net principal sum outstanding on its borrowing to the minimum amount it has available to invest. The upper limits on fixed and variable rate interest rate exposures expressed as the amount of net principal borrowed is:

	2017/18 Approved Limit	2017/18 Actual
Upper limit on fixed interest rate exposure	£35m	£4.5m
Upper limit on variable interest rate exposure	-£50m	-£22.8m

3.6 **Maturity Structure of Borrowing**: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	2017/18 Actual Performance
Under 12 months	100%	0%	*88%*
12 months and within 24 months	100%	0%	*6%*
24 months and within 5 years	100%	0%	*6%*
5 years and within 10 years	100%	0%	-
10 years and above	100%	0%	-

3.7 The Council commenced the financial year 2017/18 carrying £2.1m of borrowing obtained from the Enterprise M3 Local Enterprise Partnership (EM3). This sum was advanced in order to assist the temporary financing of some specific capital projects.

3.8 During 2017/18, an amount of £0.435 million was repaid to EM3 in accordance with the pre-agreed repayment schedule. The Council raised an additional £12 million short-term borrowing during the financial year. The need for this additional borrowing was in relation to an approved in-year increase in capital expenditure. Total borrowing therefore amounted to £14.1 million at 31st March 2018.The above table demonstrates the elements of principal repayment that arise from the sum borrowed expressed as a percentage of the original amount borrowed.

3.9 **Principal Sums Invested for Periods Longer than 364 days**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Performance against the limits on the total principal sum invested to final maturities beyond the period end is:

	2017/18 Approved Limit	2017/18 Actual Performance
Limit on principal invested beyond year end at any one time	£40m	£14.6m

3.10 The Council's revised estimates regarding investment yields and costs compared to the actual outturn for 2017/18 is shown in the table below.

Budgeted income and outturn	Revised Estimate 2017/18 £000	Actual 2017/18 £000	Variance £000
Interest receivable	(839)	(820)	(19)
Interest Payable	106	73	33
Net Amount	(733)	(747)	14

4 CONCLUSIONS ON THE TREASURY MANAGEMENT OPERATIONS 2017/18

4.1 The Council's treasury team continued to concentrate on the security of investments taking due regard for the returns available. Continued low interest rates throughout the financial year coupled with a lack of suitable counterparties with whom to invest continued to make the activity challenging. However, overall investment income still managed to produce a buoyant return to the General Fund revenue account.

4.2 All treasury management activity during 2017/18 was carried out in accordance with the Annual Treasury Management Strategy and complied with the treasury and prudential indicators set out in that report, and with the Treasury Management Code of Practice

5 TREASURY MANAGEMENT PRINCIPLES AND SCHEDULES

5.1 Full Council approved the Annual Treasury Management Strategy for 2018/19 on 22 February 2018. In addition to that approval the CIPFA code requires the setting out of responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management.

5.2 One of the recommendations of the Code is for the creation and maintenance of Treasury Management Practices that incorporate the Principles & Schedules that achieve treasury management policies and objectives. These prescribe how the Council will manage and control those activities.

5.3 CIPFA has conducted reviews of the “Prudential Code” and the “Treasury Management Code of Practice” in 2017, and the Ministry of Housing, Communities and Local Government (MHCLG) has also recently undertaken consultation on treasury management issues.

5.4 CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports for the 2019/20 financial year

6 CAPITAL EXPENDITURE FOR THE YEAR 2018/19

6.1 The Council undertook a succession of approved capital acquisitions during the previous financial year, 2017/18, driven by an aim to regenerate the local economy contained in the key theme of sustaining a thriving economy and boosting local business as part of the Council’s “Listen, Learn, deliver better” strategy. These approved 2017/18 property acquisitions amounted to around £12.4m. They will generate significant revenue gains to the General Fund revenue account from the point of acquisition and into the future. In order to finance these acquisitions and some other capital expenditure in the year a significant proportion of the Council’s capital receipts was utilised for the purposes of financing the capital programme for that year.

6.2 The approved revised capital programme for 2017/18 was set at £32.4m. The actual capital outlay during 2017/18 was £12.4m. The variance in actual spend to approved capital programme was due to slippage in the purchasing of capital assets. It is the intention of the Council to continue with the capital purchase as revised in 2017/18, producing a slippage of £20m from 2017/18 into 18/19. The approved capital spend in 2018/19 is £28.7m. Including the slippage from 2017/18 and additional approvals of £7.4m raises capital expenditure to £56.1m.

6.3 The Council commenced the current financial year with £1.3m of capital receipts. However, all of this available capital receipt resource is held ready to finance the remainder of the approved capital loan to Farnborough International, the ongoing flexible capital receipts initiative and a range of shorter life non-current assets. Hence, the method of capital financing for continuing capital budget of £56.1m in 2018/19 can only be achieved by prudential code borrowing. The Council is able to finance the 2018/19 capital programme including the slippage from 2017/18 within its set borrowing limits from 2018/19 of £58m.

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PRUDENTIAL INDICATORS **APPENDIX A**

Comparative information for 2018/19 and future years is provided in Appendix E

1.1 Prudential Indicators

Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2017/18 Revised £m	2017/18 Actual £m
General Fund	32.401	12.395
Total Expenditure	**32.401**	**12.395**
Capital Grants & Contributions	2.189	1.2370
Revenue	0.261	0.123
Capital Receipts	5.325	5.325
Borrowing	24.626	5.710
Total Financing	**32.401**	**12.395**

Estimates of Capital Financing Requirement:
The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Revised £m	31.03.18 Actual £m
General Fund	34.1	15.6
Total CFR	**34.1**	**15.6**

During 2017/18, the Council made use of a revolving infrastructure fund from the Local Enterprise Partnership (EM3 LEP). This will not give rise to any minimum revenue provision charges into the General Fund as the annual instalments will be funded from capital receipts received from the developer.

The Council therefore now carried a capital financing requirement within the terms of the Prudential Code.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.18 Actual £m**
Borrowing	34.3	14.14
Total Debt	**34.3**	**14.14**

The information above refers to the use of a revolving infrastructure fund from the Local Enterprise Partnership (EM3 LEP).

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	**2017/18 Revised £m**	**2017/18 Actual £m**
Borrowing	40.0	14.14
Other long-term liabilities	-	-
Total Debt	**40.0**	**14.14**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Revised £m**	**2017/18 Actual £m**
Borrowing	44.0	14.14
Other long-term liabilities	1.0	-
Total Debt	**45.0**	**14.14**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2017/18 Revised %**	**2017/18 Actual %**
General Fund	-5.2	-6.4

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	**2017/18 Estimate £**	**2017/18 Actual £**
General Fund - increase in annual band D Council Tax	-	-

Adoption of the CIPFA Treasury Management Code: The prudential indicator in respect of treasury management is that the Council adopt CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, with recognition of the existing structure of the Council's borrowing and investment portfolios. The revised edition of the Code (November 2011) was adopted by the Council on 20th February 2014.

APPENDIX B

Market commentary regarding the year 2017/18 from the Council's treasury management advisors Arlingclose

External Context

Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.
The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March 2 MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.
Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would will be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) 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 Net Asset Value (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.

Credit Rating developments

The most 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.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

APPENDIX C

RUSHMOOR BOROUGH COUNCIL - INVESTMENT OPENING/CLOSING IN 2017/18

31 03 17 £m		31 03 18 £m
	UK Local Authorities	
2.0	Dumfries and Galloway Council	0.0
	Covered Bonds/Floating Rate Notes	
1.0	Leeds Building Society (FRN via K&S)	0.0
2.2	Leeds Building Society (Fixed Bond via K&S)	2.2
2.3	Yorkshire Building Society (Fixed Bond via K&S)	2.3
1.0	Lloyds Bank	0.0
	AAA - Rated Money Market Funds	
0.1	Aberdeen	0.4
1.5	Deutsche Bank	0.8
1.6	Insight	1.1
1.8	Standard Life	0.9
0.0	Svenska	0.0
	Pooled Funds	
5.0	CCLA	3.6
3.0	SWIP Absolute Fund	0
5.0	UBS Multi-Asset Fund	5
5.0	Payden and Rygel	5
2.0	Threadneedle Investment	2
0.0	M&G Investment	4
33.5	**Total**	**27.3**