Rother District Council

Report to	-	Audit and Standards Committee
Date	-	24 June 2019
Report of the	-	Executive Director
Subject	-	Treasury Management Report – 2018/19 Outturn

Recommendation: It be **RESOLVED** that:

1) the prudential and treasury indicators in this report be approved; and

2) the annual treasury management report for 2018/19 be noted.

Corporate Transformation Manager – Catherine Jobling
Assistant Director Resources – Robin Vennard

Introduction

1. Council approved the Council's 2018/19 Investment Strategy on 26 February 2018 (Minute CB17/67 refers), which requires an annual report describing the Treasury Management activity in the past year compared to the Strategy.

Background

2. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

3. During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

   - an annual treasury strategy in advance of the year;
   - a mid-year, treasury update report; and
   - an annual review following the end of the year describing the activity compared to the strategy, (this report).

4. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Standards Committee before they were reported to the full Council. Member training on treasury management issues was undertaken

during the year on 18 June 2018 in order to support Members' scrutiny role. Training for new Members was also offered on the 14 June 2019.

6. This report provides details of the outturn position for treasury activities and officers can confirm compliance with the Council's policies previously approved by Members.

Overall Treasury Position as at 31 March 2019

7. At the end of 2018/19 the Council's total investments were £22,098,707. There was £901,539 borrowing at 31 March 2019 and the Capital Financing requirement was £3.756 million.

8. The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 26 February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

9. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

10. The total income from investments was £446,302 compared to a budget of £512,000. This was mainly due to the delay in the purchase of the HERMES property fund due to having to wait for someone to exit the fund in order to invest.

11. The average rate of return on investments was 1.5%.

Executive Summary

12. During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Capital Expenditure in £ millions

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
General Fund Services	2,098	4,734	2,173
Investments	0	2,512	2,627
Total	2,098	7,246	4,800

Capital financing requirement in £ millions

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
CFR	1,092	3,650	3,756
Gross borrowing	0	2,512	901
Internal borrowing	1,092	1,138	2,855
Investments > 1year	4,959	5,000	7,935
Investments under 1 year	17,672	17,000	14,155
Total Investments	22,631	22,000	22,090
Net Borrowing	(22,631)	(19,488)	(21,189)

13. Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the authorised limit, was not breached.

14. The financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

The Strategy for 2018/19

15. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year. Commentary on interest/investment rates and borrowing is shown at Appendix A.

The Council's Capital Expenditure and Financing 2018/19

16. The Council undertakes capital expenditure on long-term assets. These activities may either be:

    (a) financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

    (b) if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

17. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Expenditure and Financing 2018/19

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
Capital Expenditure	2,098	7,246	4,800
Financing			
Capital Receipts	484	1,345	159
Grants and contributions	1,258	1,729	1,147
Borrowing	0	2,679	2,666
Capital Expenditure Charged to Revenue	356	1,493	828
Total Funding	2,098	7,246	4,800

Borrowing

18. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not been paid for by revenue or other resources.

19. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government, through the Public Works Loan Board (PWLB), or the money markets, or utilising temporary cash resources within the Council.

20. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

21. The total CFR can also be reduced by:

    - the application of additional capital financing resources, (such as unapplied capital receipts);or
    - charging more than the statutory revenue charge (MRP) each year through Voluntary Revenue Provision (VRP).

22. The Council's 2018/19 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2018/19 on 26 February 2018 (Minute CB17/67 refers).

23. The Council's CFR for the year is shown below:

CFR

	2017/18 Actual £ (000)	2018/19 Budget £ (000)	2018/19 Actual £ (000)
Opening balance	1,092	1,092	1,092
Add unfinanced capital expenditure	0	2,558	2,664
Less MRP/VRP	0	0	0
Closing balance	1,092	3,650	3,756

24. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

25. The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

26. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

27. The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2018/19 £ (000)
Authorised limit	16,000
Maximum gross borrowing position during the year	901
Operational boundary	NA
Average gross borrowing position	451
Financing costs as a proportion of net revenue stream	3.64%

28. During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

Overall Investment Return 2018/19

29. The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve

these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2018/19, the Council's treasury position was as follows:

Debt Portfolio	31st March 2018 Principle	Rate	Average life	31st March 2019 Principle	Rate	Average life
Fixed rate funding:						
PWLB	0	0	0	901	2.49%	50
CFR	1,092			3,756		
Over/(under) borrowing	(1,092)			(2,855)		
Total investments	22,631			22,090		
Net debt	**(22,631)**			**(21,189)**		

30. The maturity structure of the debt portfolio was as follows:

31 March 2018 £'000	PWLB	31 March 2019 £'000
0	Less than one year	**9**
0	Between one and two years	**16**
0	Between two and five years	**64**
0	Maturing in five to ten years	**80**
	Maturing in more than ten years	**731**
0	**Total**	**900**

31. The investment portfolio as at 31 March 2019:

Deposit with	Type of account	Maturity Date	Amount £	Deposit	%
Lloyds (RFB)	Call Account		3,296,004	0.65%	14.91%
Bank of Scotland (RFB)	32 days notice		2,300,000	0.80%	10.41%
Barclays (RFB)	Call Account		1,060	0.50%	0.00%
Santander	Call Account		1,645	0.55%	0.01%
National Westminster Bank (RFB)	Deposit	10/05/2019	2,000,000	0.75%	9.05%
Lloyds (RFB)	Deposit	02/07/2019	1,500,000	1.00%	6.79%
Lloyds (RFB)	Deposit	05/07/2019	1,000,000	1.00%	4.53%
Lloyds (RFB)	Deposit	16/08/2019	1,000,000	1.05%	4.53%
Bank of Scotland (RFB)	Deposit	18/09/2019	3,000,000	1.05%	13.58%
HERMES Property Fund	Long Term		2,999,998	4.54%	13.58%
CCLA Local Authority Property Fund	Long Term		5,000,000	4.50%	22.63%
Total			**22,098,707**		
Total managed in-house			14,098,709		
Total managed externally			7,999,998		
Total Treasury Investments			**22,098,707**		

Total non-Treasury investments	31 March 2018 Actual £ (000)	%	31 March 2019 Actual £ (000)	%
Third party loans	49	100%	42	1.57%
Subsidiaries	-	0%	-	
Commercial investments: Property	-	0%	2,627	98.43%
Total non-Treasury investments	49		2,669	

Total investment exposure	31 March 2018 Actual £ (000)	%	31 March 2019 Actual £ (000)	%
Treasury investments	22,631	100%	22,099	89%
Non Treasury investments	0		2,627	11%
Total of all investments	22,631	100%	24,726	100%

Conclusion

32. The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:-

Balance Sheet Resources	31 March 2018 Actual £ (000)	31 March 2019 Actual £ (000)
General Fund	1,000	1,000
Earmarked reserves	15,730	16,362
Provisions	698	726
Usable capital receipts	2,886	2,902
Capital grants and contributions	900	1,874
Total	21,214	22,864

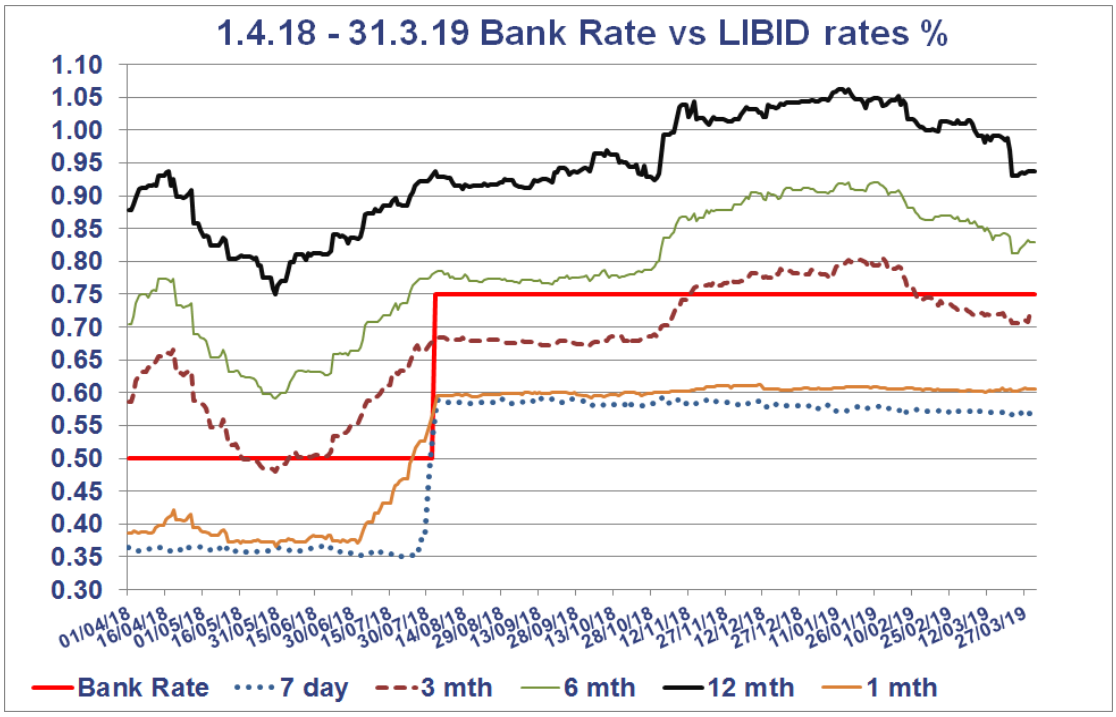
33. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Malcolm Johnston
Executive Director

Risk Assessment Statement
There are no direct risks arising from this report. Failure to follow the Council's investment strategy could increase the risk of financial loss

Appendix A

Investment Strategy for 2018/19



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Link Asset Services Interest Rate View 12.2.18	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%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Borrowing Strategy for 2018/19

During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

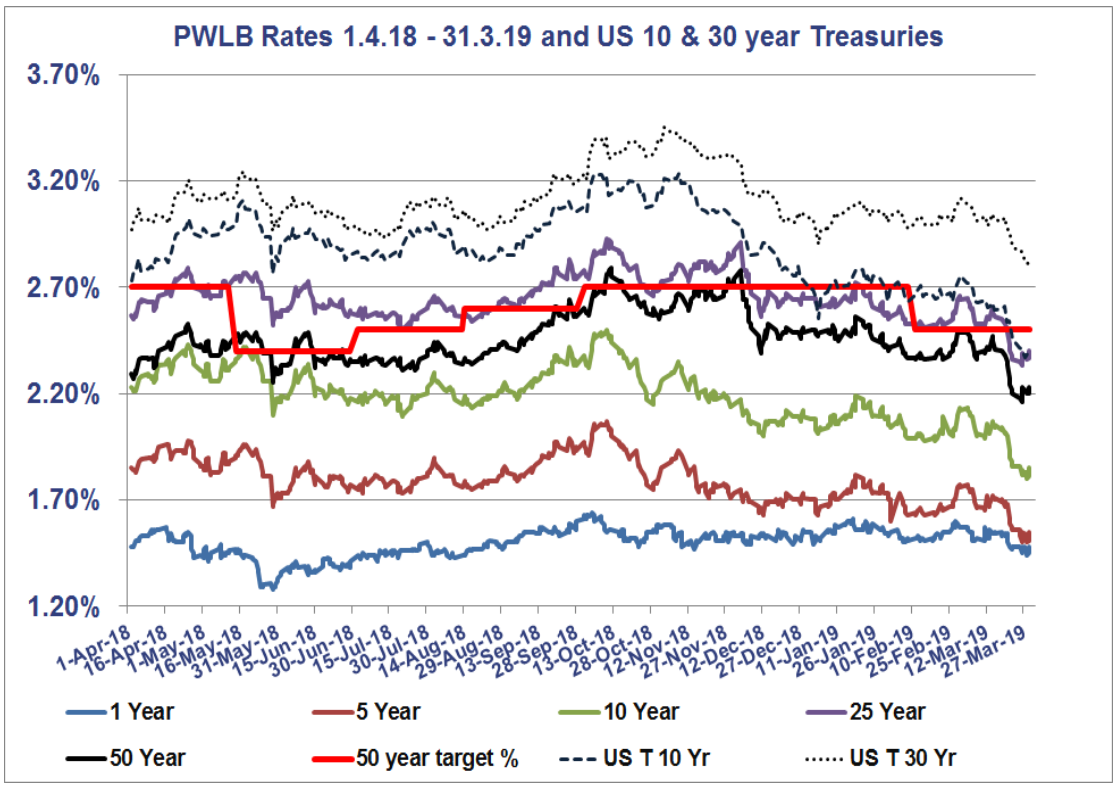
The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

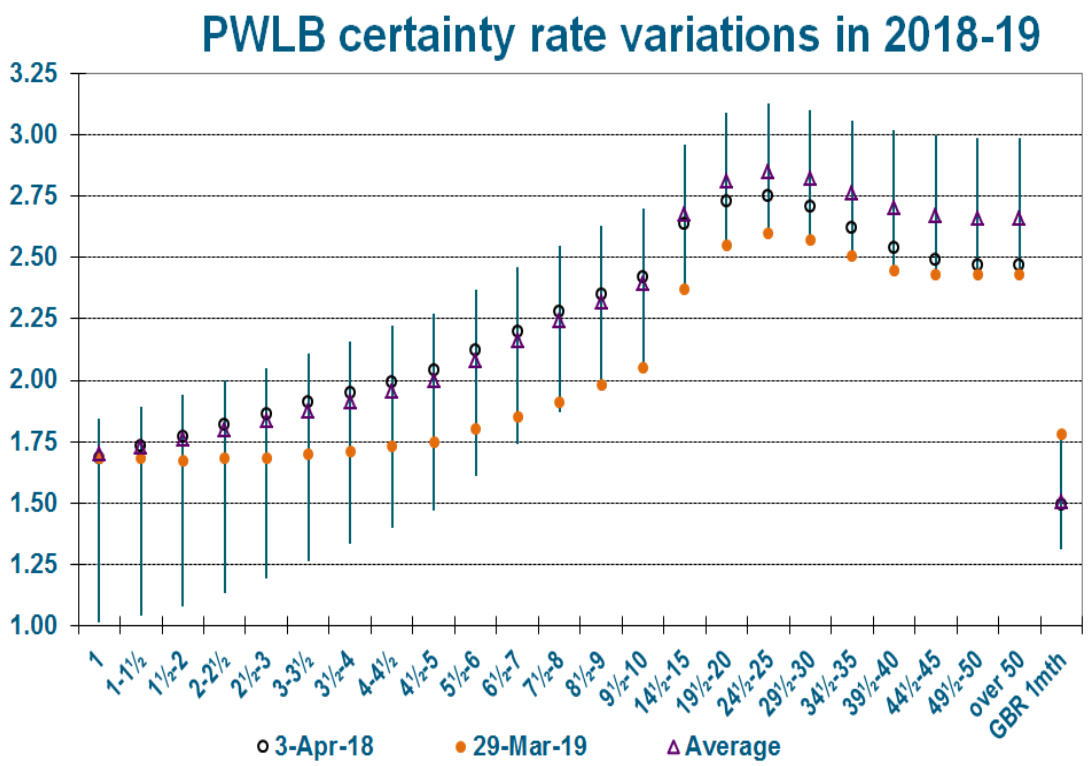
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

After taking advice from our Treasury advisors the Council took advantage of low long term interest rates and locked into 50 year fixed rate borrowing to fun the property investment strategy purchases.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View	12.2.18												
	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%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%





	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

The Economy and Interest Rates

UK. After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year, confirming that the UK was the third fastest growing country in the G7 in quarter 4.

After the MPC raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising

marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The EU has provided a "flextension" to end-October, but allowing the UK leave before if a deal is agreed. The lack of clarity over Brexit, speculation about Mrs May's successor and the prospect of a "no deal" Brexit, allied to trade uncertainty, is unsettling the markets, resulting in a volatility of interest rate expectations. Global growth concerns are also weighing on sentiment. The prospect of a rate hike remains slim to nil according to the markets, though Messrs Haldane and Saunders of the MPC have made noises about rises in recent days. The markets are pricing in a 14-35% of chance of a rate cut between this November and May 2020.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 bps by the end of 2020.

EUROZONE. The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4; it is likely to be only 0.1 - 0.2% in quarter 1 of 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of TLTROs; this provides banks with cheap borrowing every three

months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

CHINA. 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 - has been struggling to stimulate consistent significant GDP 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.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

Other Issues

IFRS 9. Risk management will need to take account of the 2018/19 Accounting Code of Practice proposals for the valuation of investments.

- Expected credit loss model. Whilst this should not be material for vanilla treasury investments such as bank deposits, this is likely to be problematic for some funds e.g. property funds, (and also for non-treasury management investments dealt with in the capital strategy e.g. longer dated service investments, loans to third parties or loans to subsidiaries).
- The valuation of investments previously valued under the available for sale category e.g. equity related to the "commercialism" agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.