The Vale of Glamorgan Council

Cabinet Meeting: 20th February 2017

Report of the Leader

Treasury Management and Investment Statement 2017/18

Purpose of the Report

1. To provide an interim report on the Council's treasury management operations for the period 1st April 2016 to 31st December 2016 and to submit for consideration the proposed 2017/18 Treasury Management and Annual Investment Strategy.

Recommendations

1. That the Treasury Management interim report for the period 1st April to 31st December 2016 be endorsed.
2. That Cabinet recommend to Council the policy for making Minimum Revenue Provision in 2017/18 be approved.
3. That Cabinet recommend to Council that the proposed 2016/17 Treasury Management and Investment Strategy be approved including the following specific resolutions:

- The Authorised Limit for External Debt be set at £192,500,000 for 2016/17, £214,700,000 for 2017/18, £214,400,000 for 2018/19 and £220,300,000 for 2019/20.
- The Operational Boundary for External Debt be set at £185,600,000 for 2016/17, £200,300,000 for 2017/18, £199,200,000 for 2018/19 and £205,700,000 for 2019/20.
- The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long term liabilities.
- An upper limit is set on its fixed interest rate exposures of £161,100,000 for 2016/17, for 2017/18 of £190,400,000, for 2018/19 of £190,100,000 and for 2019/20 of £196,000,000 of its net outstanding principal sum on its borrowings / investments.
- An upper limit is set on its variable interest rate exposures of £0 for 2016/17, 2017/18, 2018/19 and 2019/20 of its net outstanding principal sum on its investments.
- An upper limit of £5,000,000 for 2016/17, £10,000,000 for 2017/18, £5,000,000 in 2018/19 and 2019/20 is set for total principal sums invested for over 364 days.

- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2017/18 be set as below:
- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2017/18 be set as below:

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

- The Prudential Indicators set out in Appendix 1 be approved.
- The Treasury Management Policy set out in Appendix 2 be approved

Reasons for the Recommendations

1. To present the Treasury Management Interim Report.
2. To agree the basis of the Minimum Revenue Provision calculation for 2017/18
3. The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.

Background

2. The Welsh Government (WG) provides the Council with a General Capital Funding grant and the Authority is also advised of a level of borrowing that WG is prepared to fund via the Revenue Support Grant Settlement. If the Council wishes to borrow in excess of this level to increase its capital expenditure, then it can. However, it will either have to find the additional costs of borrowing through savings in other services or increases in Council Tax.
3. In order to manage this increased flexibility, Part 1 of the Local Government Act 2003 requires local authorities to have regard to the Prudential Code, which has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice.
4. The key objectives of the fully revised Prudential Code are to ensure that the capital investment plans of local authorities:

- Are affordable;
- That all external borrowing and other long term liabilities are within prudent and sustainable levels;
- The treasury management decisions are taken in accordance with professional good practice.

5. In March 2012 the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the

Council to approve a treasury management strategy before the start of each financial year.

6. The Code of Practice and legislation requires the Council to set out its Treasury Management Strategy and to prepare an Investment Strategy. The Welsh Government (WG) issued revised Guidance on Local Authority Investments in April 2010 that requires the Council to approve an Investment Strategy before the start of each financial year and states that authorities may produce a single strategy document, covering both the requirements of the CIPFA Treasury Management Code and WG's guidance.

7. The proposed Treasury Management and Investment Strategy for 2017/18, is attached at Appendix 1. The Treasury Management Strategy itself covers a rolling period of three years and is intended to link in to the Medium Term Financial Planning process. The Investment Strategy covers the next financial year. The document also includes a number of statutory Prudential Indicators that may be used to support and record local decision-making.

Proposed Strategy 2017/18

8. As at the 31st December 2016 the Authority has placed all of its investments with either the 'Debt Management Account Deposit Facility' (DMADF) of the Bank of England which are guaranteed by the UK Government, or with UK Local Authorities.

9. The Authority will continue to use credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality. In addition, regard will be given to other available information on the credit quality of banks and building societies.

Interim Report

10. In so far as the Council's Treasury Management operations entered into for the period 1st April 2016 to 31st December 2016 are concerned, all activities were in accordance with the Council's approved strategy on Treasury Management. The following table sets out the monies borrowed / repaid during the period.

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2016			**31/12/2016**
	£'000	**£'000**	**£'000**	**£'000**
PWLB	151,211	0	(812)	150,399
Other Long Term Loans	6,000	0	0	6,000
WG Concessionary Loan	2,100	0	0	2,100
Temporary Loans	100	0	0	100
Total	**159,411**	**0**	**(812)**	**158,599**

11. Loans borrowed from the Public Works Loan Board (PWLB) are intended to assist Local Authorities in meeting their longer term borrowing requirements. The above loans are all at fixed rates of interest. The rate paid on each loan is largely dependent upon the original duration of the loan and date taken out.

12. Other long term loans represent those non-PWLB loans that are repayable at least one year or more from the date they are advanced. The bulk of this debt is represented by two market loans of £2,000,000 and £4,000,000.

13. In the 2016/17 accounts the Council recognised a £2.1M interest free loan from WG which is repayable in 2025.

14. Temporary loans represent those loans that are borrowed for a period of less than one year, borrowed on notice.

15. The Council's investments for the period to 31st December 2016 is set out below;

Borrowing Institution	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2016			**31/12/2016**
	£'000	£'000	£'000	£'000
Local Authorities	48,000	128,150	-111,150	65,000
Debt Management Account Deposit Facility	30,600	1,371,350	-1,393,150	8,800
Total	**78,600**	**1,499,500**	**-1,504,300**	**73,800**

16. Interest at an average rate of 0.28% and amounting to £229,432 has been received from maturing investments for the first 9 months of 2016/2017.

Annual Minimum Revenue Provision Statement 2017/18

17. Capital expenditure when financed by long term debt incurs two elements of cost, interest on and repayment of the principal sum borrowed. The resources the Council must put aside in each year to repay the principal sum borrowed is known as the Minimum Revenue Provision (MRP). Pre 2008 there were detailed statutory rules for the calculation of MRP as laid down in the 2003 regulations but the introduction of the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 which became effective from the 31st March 2008, replaced these statutory rules with: 'A local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent.'

18. Welsh Government has issued guidance on what constitutes prudent provision and this requires the Council to approve an annual statement of its policy on calculating MRP.

19. The "Practitioners' Guide to Capital Finance in Local Government (2012 edition) " discusses four options for the prudent provision of MRP as follows:

    Option 1 - The Regulatory Method, calculation of MRP provision by applying the statutory formula set out in the 2003 regulations.

    Option 2 - Capital Financing Requirement (CFR) Method, calculation of MRP provision by multiplying the CFR at the end of the preceding year by 4%.

    Option 3 - Asset Life Method, calculation of MRP provision by amortising expenditure over the estimated useful life for the relevant assets created.

Option 4 - Depreciation Method, calculation of MRP provision by making charges to revenue which are based on the proper practices for depreciation as they apply to the relevant assets.

20. The Council is required to have a consistent MRP policy. It is therefore proposed that the MRP charge for 2017-2018 for capital expenditure will be calculated as in previous years using option 1 as detailed above. Taking into account the nature and age of the Council's non current assets, the Council has concluded that a 4% charge in line with the CFR Method is sufficient to ensure prudent provision for supported borrowing and this approach matches the funding stream from Welsh Government.

21. Some Councils have revised or are in the process of reviewing the level of MRP charged to revenue to realise savings. However, having considered the requirement to ensure prudent MRP provision and taking into account the statutory duties under the "Well-being of Future Generations Act 2015", which has been introduced to ensure that the needs of the present are met without compromising the ability of future generations, the Council does not intend to amend its MRP policy for 2017/2018. A review of MRP provision has recently been undertaken by Arlingclose and the findings are currently being analysed. A further report will be taken to Audit Committee to advise of the findings of this review and a proposed approach for 2018/19 will be brought later in the year.

22. The basis of the calculation for 2017/18 is as follows:

	£'000
Estimated Non Housing Capital Financing Requirement (excluding Prudential Borrowing) at 31.03.16*	105,967
Add Adjustment 'A' **	2,004
Total	**107,971**
4% of the Total (the adjusted CFR)	
= Minimum Revenue Provision	**4,318**

*The Non Housing Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes and is the Council's cumulative capital expenditure financed only by long term borrowing, less the total MRP made in previous years.

** Adjustment 'A' nullifies the revenue effect of the changes to MRP calculation following the introduction of the Prudential Code in 2004.

23. Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

24. The Local Authorities (Capital Financing and Accounting) (Wales) (Amendment) Regulations 2008 requires that the Regulatory and CFR methodologies can only be used for expenditure incurred before 1 April 2008 and expenditure incurred after that date which is supported through Revenue Support Grant (RSG).

25. Included in the 2017/18 revenue estimates are principal repayments totalling £0.428M in respect of Prudential (unsupported) Borrowing (i.e. not supported for Revenue Purposes). Of this funding £0.113M is in respect of two specific schemes

Llantwit Learning Community and Penarth Learning Community. The provision made in respect of these schemes is commensurate with asset life as estimated by the Council's External Valuer. In addition £0.315M has been included in respect of the Local Government Borrowing Initiative (LGBI) funding from WG for 21st Century Schools and the Local Road Network Improvement scheme. The provision in respect of LGBI schemes is commensurate with the applicable WG funding streams through RSG.

26. The Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

Resource Implications (Financial and Employment)

27. Money is borrowed for capital purposes and interest is charged to revenue accounts.

Sustainability and Climate Change Implications

28. There are no sustainability and climate change implications.

Legal Implications (to Include Human Rights Implications)

29. Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.

Crime and Disorder Implications

30. There are no crime and disorder implications resulting from this report

Equal Opportunities Implications (to include Welsh Language issues)

31. There are no equality implications resulting from this report.

Corporate/Service Objectives

32. This meets the objective to provide effective treasury management. This is linked to the corporate objectives generally in that any savings made can be used to assist other services in meeting their objectives

Policy Framework and Budget

33. This is a matter for Executive Decision by Cabinet.

Consultation (including Ward Member Consultation)

34. None.

Relevant Scrutiny Committee

35. Corporate Performance and Resources

Background Papers

CIPFA's "Code of Practice for Treasury Management in the Public Services", "The Prudential Code" and WG guidance on local authority investments

Contact Officer

Principal Accountant.

Officers Consulted

Not applicable

Responsible Officer:

Section 151 Officer