

The Vale of Glamorgan Council

Cabinet Meeting: 19th February 2018

Report of the Leader

Treasury Management and Investment Strategy 2018/19

Purpose of the Report

1. To provide an interim report on the Council's treasury management operations for the period 1st April 2017 to 31st December 2017 and to submit for consideration the proposed 2018/19 Treasury Management and Investment Strategy.

Recommendations

1. That the Treasury Management interim report for the period 1st April to 31st December 2017 be endorsed.
2. The policy for making Minimum Revenue Provision in 2018/19 be approved.
3. That Cabinet recommend to Council that the proposed 2018/19 Treasury Management and Investment Strategy be approved including the following specific resolutions:
 - The Authorised Limit for External Debt be set at £203.681M for 2017/18, £216.031M for 2018/19, £226.060M for 2019/20 and £226.292M for 2020/21.
 - The Operational Boundary for External Debt be set at £175.441M for 2017/18, £195.637M for 2018/19, £199.906M for 2019/20 and £206.012M for 2020/21.
 - 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 £149.265M for 2017/18, for 2018/19 of £154.046M for 2019/20 of £159.482M and for 2020/21 of £165.362M of its net outstanding principal sum on its borrowings / investments.
 - An upper limit is set on its variable interest rate exposures of £0 for 2017/18, 2018/19, 2019/20 and 2020/21 of its net outstanding principal sum on its investments.
 - An upper limit of £5M for 2017/18, £5M for 2018/19, £2M in 2019/20 and 2020/21 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 2018/19 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 2018/19.
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 (supported borrowing). 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 2017 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 2018/19, 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 2018/19

8. In 2018/19 the Authority will continue to place 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. At the time of writing the report Northamptonshire County Council has filed a Section 114 notice to indicate that it is unlikely to submit a balanced budget within statutory timescales. The Council has no investments with Northamptonshire Council and has been advised by their Treasury Management advisors not to make any new investments with them. There has been extensive discussion in the press surrounding the potential for other English Local Authorities to be in a similar position although there has been no indication that any Local Authorities are likely to default on their loan repayments.
10. If a Local Authority that the Council has investments with was to default on a loan repayment the Council would have recourse under the Local Government Act 2003 to collect any outstanding sums. Given the emerging nature of the picture in relation to Local Authority investments the Treasury Management section will set a maximum period of 6 months for investments made from the date of this report. A further update on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.
11. The Council will pursue the possible use of other investment tools, i.e. Treasury Bills & Money Market Funds during 2018/19 and may introduce these investment tools once relevant appraisals have been undertaken. However the continuing uncertainty in the financial markets will continue to dictate that the importance of capital security still outweighs the importance of financial performance at present.
12. 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.
13. The proposed Treasury Management and Investment Strategy is attached at Appendix 1.

Interim Report

14. In so far as the Council's Treasury Management operations entered into for the period 1st April 2017 to 31st December 2017 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
	01/04/2017			31/12/2017
	£000	£000	£000	£000
PWLB	148,999	0	(1,807)	147,192
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	157,199	0	(1,807)	155,392

15. 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.
16. 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.
17. Temporary loans represent those loans that are borrowed for a period of less than one year that are borrowed on notice.
18. The Council's investments for the period to 31st December 2017 are set out below;

Borrowing Institution	Opening Balance	Received	Repaid	Closing Balance
	01/04/2017			31/12/2017
	£000	£000	£000	£000
Local Authorities	65,500	172,350	(172,350)	65,500
Debt Management Account Deposit Facility	4,250	1,398,650	(1,398,500)	4,400
Total	69,750	1,571,000	(1,570,850)	69,900

19. Interest at an average rate of 0.30% and amounting to £144,140 has been received from maturing investments for the first 9 months of 2017/18

Annual Minimum Revenue Provision Statement 2018/19

20. 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.'

21. 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. The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.
22. At its meeting on 31st January 2018 Audit Committee considered a proposal to amend the policy for calculating MRP for General Fund Supported Borrowing. The proposal was to amend the methodology from a 4% Reducing Balance Methodology to an Equal Instalment Asset Life Methodology. This revised approach was approved by Audit Committee.
23. The following statement incorporates options recommended in the Guidance.
24. For supported capital expenditure, MRP will be determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.
25. For unsupported capital expenditure incurred after 31st March 2008, MRP will usually be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. Exceptions to this methodology are set out in paragraph 29.
26. MRP will be charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets.
27. Capital expenditure incurred during 2018/19 will not be subject to an MRP charge until 2019/20.
28. Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2018, the budget for MRP has been set as follows:

	31.03.2018 Estimated CFR £000	2018/19 Estimated MRP £000
General Fund		
Supported capital expenditure	104,882	2,672
Unsupported capital expenditure	18,310	616
Total General Fund	123,192	3,288
Housing Revenue Account		
Total Housing Revenue Account	77,585	1,552
Total	200,777	4,840

29. Included in the 2018/19 revenue estimates are principal repayments totalling £616k in respect of prudential (unsupported) Borrowing (i.e. not supported for Revenue Purposes). Of this funding £113k 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. Provision of £171k has been made for the repayments against a loan of £1.2M for refuse vehicles over an expected life of 7 years. In

addition £332k 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.

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

Resource Implications (Financial and Employment)

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

Sustainability and Climate Change Implications

32. There are no sustainability and climate change implications.

Legal Implications (to Include Human Rights Implications)

33. 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

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

Equal Opportunities Implications (to include Welsh Language issues)

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

Corporate/Service Objectives

36. 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

37. This report needs to be referred to Council for approval

Consultation (including Ward Member Consultation)

38. None.

Relevant Scrutiny Committee

39. Corporate Performance and Resources

Background Papers

CIPFA's "Code of Practice for Treasury Management in the Public Services" (2017 Edition), "The Prudential Code" (2017 Edition) and WG guidance on local authority investments

Committee papers for Audit Committee 31st January 2018 - Proposal to Amend the Minimum Revenue Proposals 2018-19 Policy.

Contact Officer

Principal Accountant.

Officers Consulted

Not applicable

Responsible Officer:

Section 151 Officer