

THE VALE OF GLAMORGAN COUNCIL

COUNCIL: 27TH FEBRUARY, 2019

REFERENCE FROM CABINET: 18TH FEBRUARY, 2019

**C587 TREASURY MANAGEMENT AND INVESTMENT STRATEGY
2019/20 AND UPDATE FOR 2018/19 (L) (CORPORATE PERFORMANCE AND
RESOURCES SCRUTINY COMMITTEE) –**

Cabinet was provided with an interim report on the Council's Treasury Management operations for the period 1st April to 31st December, 2018 and the proposed 2019/20 Treasury Management Strategy was submitted for consideration.

The Welsh Government (WG) provided the Council with a General Capital Funding grant and the Council was also advised of a level of borrowing that WG was prepared to fund via the Revenue Support Grant Settlement (supported borrowing). If the Council wished to borrow in excess of this level to increase its capital expenditure, then it could. However, it would either have to find the additional costs of borrowing through revenue savings in other services or increases in Council Tax.

In order to manage this increased flexibility, Part 1 of the Local Government Act 2003 required Local Authorities to have regard to the Prudential Code, which had been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice.

The key objectives of the fully revised Prudential Code were to ensure that the capital investment plans of Local Authorities:

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

In March 2018 the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which together with the WG revised guide on Local Government Investments (April 2010), required the Council to receive and approve as a minimum three main treasury reports each year which incorporate a variety of policies, estimates and actuals. All reports would be reviewed at Cabinet and Scrutiny Committee before being reported to Council. These are as follows:

Treasury Management and Investment Strategy

A report presented and approved before the start of the financial year which was forward looking and covered the Authority's

- Capital Plans (including prudential indicators);
- Minimum Revenue Provision (MRP);
- The Borrowing Strategy; and
- The Investment Strategy.

Mid-Year Treasury Management Report

A progress report to update Members on the Council's treasury activities to date and to provide an opportunity to revise policy or prudential indicators if required.

A backward looking review report comparing actual outturn to estimates together with a selection of actual prudential and treasury indicators.

The proposed Treasury Management and Investment Strategy for 2019/20, was attached at Appendix 1 to the report. The Treasury Management Strategy itself covered a rolling period of three years and was intended to link into the Medium Term Financial Planning process. The Investment Strategy covered the next financial year. The document also included a number of statutory Prudential Indicators that may be used to support and record local decision-making.

Proposed Strategy 2019/20

Borrowing Strategy

As interest rates and investment returns were likely to remain low during 2019/20 the Council would continue the policy of avoiding new external borrowing by running down spare cash balances and reserves to finance capital expenditure. However this approach would be carefully reviewed to avoid higher borrowing costs in future years when the Council may not be able to avoid external borrowing at higher interest rates. The Council would need to consider the effect on revenue and credit risk if it opted to borrow externally in 2019/20.

Investment Strategy

In 2019/20 the Council would continue to place investments with either the Debt Management Account Deposit Facility (DMADF) of the Bank of England which were guaranteed by the UK Government, or with UK Local Authorities. The Council would continually review the financial stability of all Local Authorities with whom it placed investments.

Although not guaranteed by the UK Government, if a Local Authority with whom the Council had placed an investment were to default on repayment, the Council would have recourse under the Local Government Act 2003 to collect any outstanding sums.

The Treasury Management section would in 2019/20 retain the maximum principal investment at £5m and the maximum period of investment to 12 months. Any change on this position would be brought to Cabinet as part of future Treasury Management monitoring reports.

The Council would continue to pursue the possible use of other investment tools, i.e. Treasury Bills and Money Market Funds during 2019/20 and may introduce these once relevant appraisals had been undertaken. However the ongoing uncertainty in the financial markets would continue to dictate that capital security would still outweigh the importance of financial performance at present.

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

Interim Report

Insofar as the Council's Treasury Management operations entered into for the period 1st April to 31st December, 2018 were 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
	01/04/2018			31/12/2018
	£000	£000	£000	£000
PWLB	147,165	0	(719)	146,446
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	155,365	0	(719)	154,646

Loans borrowed from the Public Works Loan Board (PWLB) were intended to assist Local Authorities in meeting their longer term borrowing requirements. The above loans were all at fixed rates of interest. The rate paid on each loan was largely dependent upon the original duration of the loan and date taken out. The average interest rate on all the Council's outstanding PWLB debt had moved over the period 1st April - 31st December, 2018 from 4.7425% to 4.7211%.

Other long term loans represented those non-PWLB loans that were repayable at least one year or more from the date they were advanced. The bulk of this debt was represented by two market loans of £2,000,000 and £4,000,000. The average interest rate on the Authority's outstanding market loans was 5.322%.

The Concessionary Loan was advanced to the Council by the WG on 1st April, 2015 for a period of 10 years. The loan would mature on 31st March, 2025 and was interest free.

Temporary loans represented loans that had no fixed maturity date. Current loans had been borrowed from The Vale of Glamorgan Welsh Church Act Fund. Interest was calculated on a monthly basis using the "Average 7 Day Rate".

The Council's investment for the period to 31st December, 2018 is set out below:

Investment Counterparty	Opening Balance	Invested	Repaid	Closing Balance
	01/04/2018			31/12/2018
	£000	£000	£000	£000
Local Authorities	60,000	255,450	(237,450)	78,000
Debt Management Account Deposit Facility	6,900	1,361,550	(1,362,450)	6,000
Total	66,900	1,617,000	(1,599,900)	84,000

Whilst considerations, such as interest rate forecasts, would inevitably inform the Treasury Management Strategy to be adopted over the coming years, account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy. Adherence to its requirements was mandatory for all matters relating to Treasury Management and investments and the Policy for 2019/20 was attached at Appendix 2 to the report.

This was a matter for Executive and Council decision.

Cabinet, having considered the report and all of the issues and implications contained therein,

RESOLVED –

- (1) T H A T the Treasury Management interim report for the period 1st April to 31st December, 2018 be endorsed.
- (2) The policy for making Minimum Revenue Provision in 2019/20 be approved.
- (3) That Cabinet recommend to Council that the proposed 2019/20 Treasury Management and Investment Strategy be approved including the following specific resolutions:
 - The Authorised Limit for External Debt be set at £200.854m for 2018/19, £201.556m for 2019/20, £217.263m for 2020/21 and £234.895m for 2021/22.
 - The Operational Boundary for External Debt be set at £185.812m for 2018/19, £194.831m for 2019/20, £198.861m for 2020/21 and £222.014m for 2021/22.
 - 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 £148.545m for 2018/19, for 2019/20 of £147.310m, for 2020/21 of £165.610m and

for 2021/22 of £180.393m of its net outstanding principal sum on its borrowings / investments.

- An upper limit is set on its variable interest rate exposures of £0 for 2018/19, 2019/20, 2020/21 and 2021/22 of its net outstanding principal sum on its investments.
- An upper limit of £0m for 2018/19, £2m for 2019/20, £2m in 2020/21 and £2m in 2021/22 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 2019/20 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 to the report be approved.
- The Treasury Management Policy set out in Appendix 2 to the report be approved.

Reasons for decisions

- (1) To present the Treasury Management Interim Report.
- (2) To agree the basis of the Minimum Revenue Provision calculation for 2019/20.
- (3) The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.