Appendix 1

Treasury Management and Investment Strategy 2018/2019

Introduction

The Treasury Management and Investment Strategy sets out the Council's plan for treasury management for the period 2018/19 to 2020/21. The plan forms an integral part of the Council's strategic planning process, linking in with the Medium Term Financial Plan, Capital Investment Strategy and annual budget cycle.

The Council's Treasury Management Policy is set out at Appendix 2

The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2017.

The Council has a legal obligation under the Local Government Act 2003 to have regard to the Prudential code and the Welsh Government guidance.

Prudential Code

> The key objectives of the Prudential code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how the risks will be managed to levels that are acceptable to the organisation.
>
> To demonstrate the Council has fulfilled these objectives the Code sets out prudential indicators that should be used and the factors that must be taken into account.
>
> The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

Welsh Government Guidance

In line with the Welsh Government Guidance this document is a single strategy document covering the requirements of the CIPFA Treasury Management Code and Welsh Government's guidance.

The Welsh Government guidance contain requirements with regard to the need to set out the Council's policies for the prudential management of its investments giving regard to firstly security and secondly liquidity. It covers the definition of specified and non-specified investments and the approach to investment risk.

Risk Management

The Council has borrowed and invested significant sums of money and is therefore exposed to financial risks such as the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority’s Treasury Management Strategy.

External Context

Economic background

The major external influence on the Authority’s treasury management strategy for 2018/19 will be the UK’s progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England’s Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England’s Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast

The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19**,** following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

Local Context

Table 1: Balance Sheet Summary and Forecast

Capital Financing Requirement (CFR)

	31.3.2017 Actual	31.3.2018 Estimate	31.3.2019 Estimate	31.3.2020 Estimate	31.3.2021 Estimate
	£000	£000	£000	£000	£000
Non HRA CFR	119,828	123,192	124,827	125,108	126,036
HRA CFR	75,310	77,585	88,798	94,778	98,812
Total CFR	195,138	200,777	213,625	219,886	224,848

The Capital Financing Requirement indicates that between 1st April 2017 and 31st March 2021 the Authority expects to undertake £51.383M in new debt-funded capital expenditure. This consists of £13.121M General Capital Supported Borrowing, £30.232M required for the Housing Business Plan and £1.5M required for the School Investment Programme under the Local Government Borrowing Initiative. Borrowing of £1.2M is built in for the purchase of refuse vehicles in 2017/18. An additional £0.919M is also included as part of the scheme on a short term basis in advance of Capital Receipts being realised on a number of sites as part of the proposals in 2023/24. £4.411M is included for the current Cardiff Capital City Region Deal proposals that are included in the Revenue Budget and Capital Programme Proposals also on this agenda. During this period provision for repayment via MRP (Minimum Revenue Provision) including for the Housing Revenue Account (HRA) will be made of £21.673M.

This will be funded from a mixture of internal and external borrowing. The Authority currently has a balance of internal borrowing of £40M which has been afforded as a result of its high levels of cash balances due to its current level of reserves. As these reserves start to be spent over the coming years in line with forecasts, the position will need to be monitored carefully.

The balance of the Authority's usable reserves and working capital can be utilised for internal borrowing or investment.

In the medium to long term it is expected that the Council will need to borrow externally. This is primarily as a result of the HRA needing to borrow funds to meet the Welsh Quality

Housing Standard in 2018 and meet other aspirations set out in the Draft Housing Business Plan and Education proposals set out as part of Band B of WG's 21st Century Schools initiative.

Whilst Cardiff Capital City Region Deal proposals have yet to be finalised the impact of current proposals to borrow £120M across 10 Local Authority Partners (£4.411M included to 31st March 2021) are reflected in the Treasury Management Strategy and Prudential Indicators. It is currently proposed that the financing of Local Authority contributions will be a matter for individual Local Authorities and the proposals reflect a mix of internal and external borrowing over the period.

Prudential Indicators

Affordability

The objective of the affordability indicator is to consider the impact of the Council's capital investment plans on the council tax and, for the Housing Revenue Account (HRA), the level of rent to be charged. To achieve this, the Council has to consider all of the resources available to it, together with the totality of its capital plans, revenue income and revenue expenditure forecast for the coming year and the following two years. These should be rolling scenarios and not fixed for three years.
The indicators in this category which are required to be approved by Council are set out below:

1. Ratio of relevant financing costs to HRA income and to the amount to be met from government grants and local taxpayers for Non HRA.

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 any investment income.

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
HRA	23.78	24.1	25.23	26.85	27.33
Non HRA	4.56	4.42	3.51	3.51	3.54

The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan. The plan demonstrates that this level of investment is affordable over the 30 year period of the plan.

2. Incremental impact of capital investment decisions on the council tax and on housing rents.

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact of the capital programme on rents and Council Tax is determined by calculating the loss of interest based on the difference between the existing capital programme with no changes and the capital programme inclusive of proposed changes that is being taken to Cabinet as part of the Draft Final Capital Proposals on this Cabinet agenda.

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Housing Rent Implication per week (average)	0.02	0.08	0.10	0.10
Band D Council Tax Implication	(0.13)	(0.16)	0.26	0.06

3. Capital expenditure

The figures shown in the following table represent the Draft Final Capital Programme proposals.

Capital Expenditure	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Learning & Skills	15,310	6,929	6,454	39,058	43,652
Social Services	612	331	470	1,439	100
Environment & Housing Services	10,478	14,525	11,620	2,096	1,961
Resources & Managing Director	8,101	11,790	20,692	1,825	2,154
City Deal	0	2,052	1,501	429	429
Non HRA total	34,501	35,627	40,737	44,847	48,296
HRA*	15,533	16,399	20,129	15,687	14,249
Total	50,034	52,026	60,866	60,534	62,545

*The Estimates reflect the Draft Housing Business Plan Proposals and figures also reflect the Draft Final Capital Proposals.

Prudence

In order to ensure long term affordability, decisions taken regarding external debt have to be prudent and, in the long term, sustainable. The indicators include:

4. Capital Financing Requirement (CFR)

This measures the Council's underlying need to finance capital expenditure (excluding transferred debt) and is shown both as an in-year movement and at 31st March.

In-Year Movement CFR	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Non HRA	(310)	3,364	1,635	281	928
HRA	4,024	2,275	11,213	5,980	4,034
Total	3,714	5,639	12,848	6,261	4,962

CFR at 31st March	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Non HRA CFR	119,828	123,192	124,827	125,108	126,036
HRA CFR	75,310	77,585	88,798	94,778	98,812
Total CFR	195,138	200,777	213,625	219,886	224,848

The CFR is forecast to increase by £29.710M between 31st March 2017 and 31st March 2021 as capital expenditure financed by debt outweighs resources put aside for debt repayment.

5. Gross debt and the Capital Financing Requirement

The Council should ensure that gross external debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

The Section 151 Officer reports that the Council had no difficulty meeting the requirement of this indicator in 2016/17 and does not envisage any difficulties meeting this indicator in the current or future years. This view takes into account current commitments, existing plans and the proposals in this Strategy.

Gross External Debt	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Brought forward 1 April	159,409	157,199	155,365	160,146	165,582
Carried forward 31 March	157,199	155,365	160,146	165,582	171,462
In year requirement	(2,210)	(1,834)	4,781	5,436	5,880

The above assumes significant external borrowing beyond 2017/18, the current projected levels of reserves are expected to permit internal borrowing for 2017/18 of £5.421M in addition to the current £40M. The Council's advice from their Treasury Management advisors Arlingclose Ltd. is that given the current, low investment yields, internal borrowing should be utilised, therefore, in line with this advice, the Section 151 Officer will seek to maximise internal borrowing. Consideration should also be made of rising interest rates and the Council's future borrowing needs.

The following Prudential Indicators are relevant for the purposes of setting an integrated Treasury Management Strategy.

6. Operational boundary for external debt

	2017/18	2018/19	2019/20	2020/21
	Probable outturn	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	175,441	195,637	199,906	206,012
Other long term liabilities	0	0	0	0
Total	175,441	195,637	199,906	206,012

The proposed operational boundary for external debt is based upon estimates of the most likely, prudent, but not worst case scenario. The operational boundary links to the authority's plans for capital expenditure, estimates of capital financing requirement and the estimate of cashflow requirements for the year. This is the expected maximum limit for external debt. It is lower than the Authorised Limit and cash flow variations may lead to the occasional breach of the operational boundary.

7. Authorised limit for external debt

	2017/18	2018/19	2019/20	2020/21
	Probable outturn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000
Borrowing	203,681	216,031	226,060	226,292
Other long term liabilities	0	0	0	0
Total	203,681	216,031	226,060	226,292

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 Authority can legally owe. It is not a limit that the Council will expect to borrow up to on a regular basis and provides headroom over and above the operational boundary.

These authorised limits set out above are considered to be consistent with the Council's current commitments and proposals for capital expenditure and financing and with its Treasury Management Policy. The estimates are based on most likely, (i.e. prudent but not worst case), scenario for external debt with sufficient headroom over and above this to allow for operational management (e.g. unusual cash movement).

8. Upper limits on fixed interest rate and variable interest rate exposure;

Fixed Interest Rate Exposure	2017/18 Probable Outturn £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Net principal fixed rate borrowing	149,265	154,046	159,482	165,362

This is a control over a Council having large concentrations of fixed rate debt needing to be replaced at the same time when interest rates may be relatively high. The upper limit for variable rate exposure measures the extent to which the Council is exposed to the effects of changes in interest rates.

Variable Interest Rate Exposure	2016/17 Probable outturn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Net Principal Upper Limit Variable Rate	0	0	0	0

Currently the Council's variable rate exposure is on net investments rather than as a result of borrowing at variable rates. By setting the upper limit as £0 this means the Council will not have more variable rate debt than variable rate investment.

9. Upper limit for principal sums invested for longer than 364 days.

	2017/18 Probable outturn £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Upper limit principal sums invested for over 364 days (per maturity date)	5,000	5,000	2,000	2,000

The Council does not currently invest beyond 364 days to minimise the investment risk. Taking into account projected use of reserves and capital expenditure it is considered that the amount available for longer term investment would need to be reduced beyond 2018/19 to enable internal borrowing to be maximised.

10. Fixed Rate Borrowing Maturity Limit

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	**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%

Borrowing Strategy

The Council's borrowing position at 31st December 2017 comprises:

		Principal	**Average Rate**
		£000	**%**
Fixed Rate Funding	PWLB	147,192	4.74
Variable Rate Funding	Market	6,100	5.27
Concessionary Loan	WG	2,100	0.00
Total Debt		**155,392**	**4.70**

Borrowing Requirement

The Borrowing Requirement represents the estimated amount that the Council will borrow externally for this year and the next 3 years.

	2017/18	**2018/19**	**2019/20**	**2020/21**
	£000	**£000**	**£000**	**£000**
	Probable	**Estimate**	**Estimate**	**Estimate**
New Borrowing	0	5,501	4,429	4,429
Replacement Borrowing	0	0	2,000	2,000
Total	0	5,501	6,429	6,429

Borrowing Strategy

Short-term interest rates are currently much lower than long-term rates. It is likely to be more cost effective in the short-term to either borrow short term loans, variable rate loans or to not borrow and reduce the level of investments instead. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loans Board (PWLB). A rate for new PWLB borrowing i.e. 20 basis points below the normal rate has again been offered to council's to subscribe to; it is referred to as the 'Certainty Rate'. This Council has subscribed and will be able to borrow at this lower rate.

The Council officers, in conjunction with the Treasury Management Advisers will continually monitor both the prevailing interest rates and the market forecasts and adopt a pragmatic approach to changing circumstances in respect of its borrowing needs.

Approved methods of Raising Capital Finance

The Local Government Act 2003 provides that a local authority may borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The Council will continue to borrow from the following sources: -

- by overdraft or short term from Financial Services Authority authorised banks;
- from the Public Works Loan Board (PWLB);
- by means of loan instruments;
- other local authorities;
- stock issues;
- short – term borrowing from any source;
- other credit arrangements;
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

LOBO (Lender Option Borrower's Option)

The Authority holds £6M of LOBO (Lender Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £6M.

Debt Rescheduling/Repayment

The Public Works Loan Board allows authorities to prematurely repay loans and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates or repay some higher rate loans by using investment balances where this will lead to an overall saving or reduce risk.

The decision on rescheduling will be taken by the Section 151 Officer under delegated powers as set out in the Council's Constitution (Officer Delegations) and will be reported to

Cabinet as part of the agreed monitoring procedure. The Section 151 Officer will also monitor the short and longer-term interest rates that can be earned on the Council's external investments. A view will then be taken as to the benefit of the early repayment of loans having regard to any premiums payable/ discounts receivable for early repayment and action taken if appropriate.

Annual Investment Strategy

The strategy of the Council will have regard to the availability of capital receipts and financial reserves. The Investment Strategy is determined in parallel with Borrowing Strategy. Cash balances should secure the best return, whilst having due regard to capital security and with maturity patterns appropriate to the Council's expenditure programmes.

Both the CIPFA Code and the WG guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The Council's investments for the period to 31st December 2017 are set out below;

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

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 2017/2018.

The above analysis shows that 94% of the Councils investments were placed with local authorities as at 31st December 2017, an increase from the equivalent figures in 2016 when 88% of the Councils investments were placed with local authorities. This strategy has helped the Council to increase the average interest rate return from investments from 0.28% in 2016/17.

Whilst the Council has no specific exposure, the Section 151 Officer intends to follow closely the emerging picture in relation to Northamptonshire Council. The Section 151 Officer considers that having taken the advice of the Independent Investment Advisor and with regard to the provisions in respect of any default set out in the Local Government Act 2003 that it is prudent for the Council to continue to invest with Local Authorities. However, given increasing media speculation regarding the growing pressures on English authorities the Council will reduce the maximum term to 6 months for all new Local Authority Investments. The Council currently has 5 existing investments have more than 6 months remaining on their term. No new investments that do not comply with this revised limit will be made.

During 2018/19 the Council intends to review the use of the following types of investments, to maximise return for the Council whilst continuing to prioritise the security of investments;

- Treasury Bills
- Money Market Funds.

Treasury Bills

A Treasury bill (T-Bill) is a short-term debt obligation backed by the Treasury Department of the U.K. government with a maturity of less than one year, sold in denominations of a minimum of £500,000 with £50,000 increments thereafter. There is a weekly auction held on a Friday with settlement due the following Monday.T-bills have various maturities and are issued at a discount from par.

In order to be able to utilise Treasury Bills the Council will need access to a Custodian Account. Following advice from Arlingclose Ltd, the Council's treasury consultants the Council has identified an appropriate provider of this facility with King & Shaxson Ltd. Arlingclose Ltd have confirmed that the tailormade service they provide for local authorities is the only one available on the market at this time.

- Contracts for financial services related to the issue or transfer of shares and other instruments are excluded contracts under the Public Contracts Regulations 2015 legislation. Services in relation to our investment in treasury bills would fall into this exclusion.

- It is the Council's intention to only bid on new issues of Treasury Bills and if successful hold them to maturity and not trade them on the secondary market.

- The Council's maximum holding of treasury bills will not exceed £5 million.

- The contract documentation has been reviewed by the Council's Legal Section.

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Money Market Funds

During 2018/19 following the proposed change in legislation by the Welsh Government, the Council may consider the use of Money Market Funds when placing very short term investments as an alternative to the Debt Management Deposit Facilty (DMADF). Again, the Council has taken advice from the Council's Treasury Management Advisors, Arlingclose Ltd, when assessing the viability of this investment tool.

Money Market Funds (MMFs) are pooled funds that invest in short- term debt instruments. They provide the benefits of pooled investment as investors can participate in a more diverse and high quality portfolio than they would otherwise individually. Each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund.

The principal objectives of MMF's are preservation of capital, very high liquidity and competitive returns commensurate with security and liquidity. The most important characteristic of a MMF is the highly diversified, high credit quality investments in the fund.

Assets that a MMF may invest in are securities issued by sovereign governments, treasury bills, investments with the DMADF, certificates of deposits issued by financial institutions, floating rate and medium term notes, commercial paper and very short dated term deposits.

Arlingclose Ltd has provided the Council with a comprehensive list of the best performing MMF's consumerate with risk which will be reviewed when the proposed changes to legislation has been confirmed. Any appointments will be reported to Cabinet at the earliest opportunity.

The maximum funds to be deposited in an individual MMF will be £5m. Arlingclose recommend that a maximum of 50% of the Council's average investment balance is held in MMFs.

Credit ratings

The Council uses credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. The categories and definitions are set out in Appendix i. The lowest available credit rating will be used to determine credit quality.

Where available, the credit rating relevant to the specific investment or class of investment or underlying collateral is used, otherwise the counterparty credit rating is used. Credit ratings are obtained and monitored by the Council's Treasury Advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the minimum credit rating criteria then:

- No new investments will be made;
- Any existing investments that can be recalled at no cost will be recalled and
- Full consideration will be given to the recall of any other existing investments

The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an organisations credit rating with a view to downgrading it so that it is likely to fall below the Council's minimum criteria.

Other Information on the Security of Investments

To ensure the security of its investments, the Council will primarily invest in UK local authorities and the UK Government including Treasury Bills and Gilts. Potential investments in money markets will only be undertaken when there is a proven track record of the MMF continually holding pooled investments of the highest credit quality.

Regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are known substantive doubts about its credit quality, even though it may meet the above criteria.

Investments are made having regard to:

- The Guidance on Local Government Investments issued by the Welsh Government (i.e. Specified and Non-Specified Investments) in April 2010;
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2017 Edition) (the CIPFA 'Treasury Management Code');
- The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W 319) (as amended).

Investment Contingencies

Certain contingencies are required to be included in the strategy for instances where sums of money cannot be invested on the money market either because it is received too late in the working day or for any other reason.

These monies will be deposited in the Council's current account. All deposits will be subject to the limit included in specified investments. Any such deposit must be withdrawn from the account and invested on the money market in the usual manner at the earliest opportunity.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The WG Guidance defines an investment as a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e. due or available to be repaid within 12 months).
- The making of the investment is not defined as capital expenditure by virtue of regulation 20 (1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W319) (as amended)
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
    - the United Kingdom Government
    - a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
    - a parish or community council.

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Investment Counterparties

A list will be maintained of counterparties that meet the Council's minimum credit rating criteria. Counterparties downgraded below the criteria will be deleted and those upgraded to meet the criteria may be added.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as Non-Specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation.

Non-specified investments will therefore be limited to long-term investments. The Council does not currently hold any non-specified investments but will consider opportunities in this area subject to the advice of the Council's advisers Arlingclose Ltd. and the views of the Section 151 Officer.

Non Specified Investment Limits

Amount limits have been set for long-term investments in relation to counterparty creditworthiness. The total limit on non-specified and long term investments is £10M in 2018/19. Both the level of investments and the criteria are considered to be prudent.

Investment Limits

	Short Term (under 12 months)	**Long Term (12 months+)**
UK Government incl. Treasury Bills, Gilts and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation	£5M per organisation
UK and Foreign Financial Institutions (A-)	£5M per organisation	£5M per organisation
UK Call Bank Accounts in UK Banks (F1/P-1/A-1)*	£5M per organisation	Not required

* Subject to the variation for Cooperative bank outlined below;

The Council currently retains a Cooperative bank account to act as a collections account. The Cooperative Bank does not meet the council's counterparty ratings criteria. The Cooperative Bank will cease to offer this service on 31st March 2018 and therefore the use of this account is expected to cease very early in 2018/19.

The Council does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2018/19. The total investment in individual UK institutions that are part of the same UK owned group will not exceed the limit set out in the table above.

Liquidity of Investments

The Council's expenditure programmes together with the maintenance of adequate reserves etc. will be used to determine the maximum period for which funds may prudently be committed. The maximum period for which funds may prudently be committed in any individual investment shall not exceed 10 years.

Management of Housing Revenue Account (HRA) Debt

On 2nd April 2015 as part of the agreed Housing Subsidy (HRAS) Buyout process a Public Works Loan Board loan of £63.186 million was drawn down and subsequently paid over to WG on behalf of HM Treasury.

HRA limit of indebtedness

Under the UK Wales Bill, Welsh Ministers were required to issue a determination to calculate the amount of housing debt each Local Housing Authority is treated as holding and the maximum housing debt each housing authority may hold or their limit of indebtedness. Under the terms of the voluntary agreement (March 2015) and the variation to the voluntary agreement (January 2016), the Council is required to demonstrate that it will comply with the limit of indebtedness set by Welsh Government.

The limit of indebtedness for the Vale of Glamorgan was calculated as follows;

Existing Borrowing as at 31-Mar-14	Borrowing to meet WHQS/New Build	Fixed Settlement Value	Borrowing Headroom	Final Limit of indebtedness
£M	£M	£M	£M	£M
2.079	33.9	63.156	4.588	103.723

Under the amended Prudential Code the local authority is required to report on the limit of indebtedness imposed and compare the Housing CFR to this limit.

	2017/18 Probable Outturn	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£M	£M	£M	£M
Limit of Indebtedness	103.723	103.723	103.723	103.723
Projected HRA CFR	77.585	88.798	94.778	98.812

Policy on Apportioning Interest to the HRA:

As part of the HRAS Buyout process the Authority has reviewed its arrangements for dealing with the pooling of debt. The current approach is that the Authority will continue to use a single pool for administering its debt. It is intended that interest will continue to be charged to the HRA using a consolidated rate.

Cardiff Capital Region City Deal

As part of the City Deal proposals the Council along with its other Local Authority Partners has committed to contributing up to £120 million of capital funding towards the Wider Investment Fund. The Vale of Glamorgan Council's share of this is £10.17m. Cardiff Capital Region Joint Cabinet (Regional Cabinet) is responsible for preparing the Joint Working Agreement (JWA) Business Plan. The JWA Business Plan will then be submitted to each of the ten local authority partners for approval. At its meeting on 15th January 2018 Joint Cabinet received proposals for financing the JWA business plan which includes £120m of Local Authority funding. The Section 151 Officer considers that it is prudent to reflect these indicative funding proposals in the Treasury Management indicators. The development of the Business Plan will be kept under review by the Section 151 Officer and if materially different a revised Treasury Management strategy will be brought to Committee.

The WG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy.

Treasury Management Advisers

The Council's Treasury Management adviser Arlingclose Limited continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- Advice and guidance on relevant policies, strategies and reports,
- Advice on investment decisions,
- Notification of credit ratings and changes,
- Other information on credit quality,
- Advice on debt management decisions,
- Accounting advice,
- Reports on treasury performance,
- Forecasts of interest rates and
- Training courses.

The quality of this service is reviewed and controlled by the Section 151 Officer and the Treasury Management team.

The Section 151 Officer may appoint cash or fund managers to manage on its behalf all or part of the Council's investments. Any external manager so appointed will be expected to comply with the Annual Investment Strategy.

Investment Training

The needs of the Council's Treasury Management staff for training in investment management are assessed as part of the staff appraisal process and from the frequent in-house meetings between the Treasury Management Team and the Section 151 Officer. In addition Arlingclose Limited and CIPFA offer training courses, seminars etc. Training was held for Members in December 2017.

Policy on Use of Financial Derivatives

The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (.i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Risk Management Strategy.

Investment of Money Borrowed in Advance of Need

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

Having considered the advice of Arlingclose Limited the Council will not be seeking to borrow sums in advance of need, unless it is considered to be of significant economic benefit by the Section 151 Officer.

The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

Project Bank Account

Welsh Government is committed to ensuring that sub-contractors involved in the delivery of public sector contracts in Wales are treated fairly. Previous experience suggests that payment practices have been historically poor throughout the supply chain and has led to cashflow pressures, which can have a greater effect on smaller companies further down the supply chain.

In order to improve this situation and to provide greater certainty of payment through the supply chain and to optimise payment periods to minimise financing charges, Welsh Government procurement policy requires Project Bank Account (PBA) arrangements to be used for publicly funded construction/infrastructure projects. Welsh Government has therefore requested that a Project Bank Account is set up as a vehicle to making payments under the design and build contract for the Five Mile Land Scheme.

PBAs are ring fenced bank accounts with trust status which act solely as a receptacle for transferring funds from the client to the lead contractor and its sub-contractors. PBAs allow simultaneous payments to all levels of the supply chain.

As the PBA has trust status, monies can only be paid to the named beneficiaries of the PBA. These would be the lead contractor and other sub-contractors within the project's supply chain. The Vale of Glamorgan Council and the lead contractor would both be trustees of the account, however the account would be set up by the lead contractor

The Council will only place its funds with institutions which have a credit rating of A- or higher. The PBA would therefore need to be opened with an institution which meets this minimum requirement.

In line with the Welsh Government's request the Council will utilise a Project Bank Account when delivering the Five Mile Lane Project providing the above conditions are met and the potential associated credit risks are regularly monitored.

MiFID II

Local authorities have been treated by regulated financial services firms as professional clients who can opt down to be treated as retail clients instead, However, from January 3rd 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can opt up to be professional clients, provided that they meet certain criteria.

Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition the firm must assess that, that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is suitable for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial

Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Authority meets the conditions to opt up to professional status and has opted to do so with Arlingclose Ltd and the Brokers that it transacts with in order to maintain their current MiFID status.

Appendix i

The Definition of Credit Ratings used in the Investment Strategy report are set out below;

Fitch's Credit Ratings and Definitions

Short Term Investments		
F1	Highest short-term credit quality	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality	Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Credit Quality	Capacity for timely payment is adequate, however near term changes could result in a reduction to non investment grade.
B	Speculative	Minimal Capacity for timely payment, vulnerability to near term adverse changes.
Long Term Investments		
AAA	Highest credit quality	Lowest expectation of default risk. Exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events.
AA:	Very high credit quality.	Very low default risk with very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A:	High credit quality.	Expectations of low default risk. The capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality	Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative	material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Moody's Credit Rating and Definitions

Short Term Investments	
P1	Prime 1 - Issuers have a superior ability to repay short term debt obligations
P2	Prime 2 – Issuers have a strong ability to repay short term debt obligations
P3	Prime 3 – Issuers have an acceptable ability to repay short term debt obligations
NP	Not Prime – No prime rating
Long Term Investments	
Aaa	Judged to be highest quality and subject to the lowest level of risk

Aa	Judged to be high quality and subject to very low credit risk
A	Judged to be upper medium grade and subject to low credit risk
Baa	Judged to be medium, grade and subject to moderate credit risk
Ba	Judged to be speculative and subject to high credit risk
B	Considered speculative of poor standing and are subject to very high credit risk
Caa	Judged to be speculative of poor standing and are subject to very high credit risk
Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal or interest.
C	Lowest rated and are typically in default

Standard and Poor's Credit Ratings and Definitions

AAA	Investment Grade – Extremely strong capacity to meet financial commitments
AA	Investment Grade – Very strong capacity to meet financial commitments
A	Investment Grade – Strong capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BBB	Investment Grade – Adequate capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BB	Speculative Grade – Less vulnerable in the near term but faces major ongoing uncertainties
B	Speculative Grade – Vulnerable to adverse conditions but still has capacity to meet financial commitments
CCC	Speculative Grade – Currently vulnerable and dependent on favourable conditions to meet financial commitments
CC	Speculative Grade – Highly vulnerable default has not yet occurred but is expected to as a virtual certainty
C	Speculative Grade –Currently highly vulnerable to non payment
D	Payment breach of a financial commitment or in breach of an imputed promise