VALE of GLAMORGAN
BRO MORGANNWG

Agenda Item: 8

Meeting of:	**Cabinet**
Date of Meeting:	**Monday, 18 November 2019**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Treasury Management Mid - Year Report 2019/20
Purpose of Report:	To provide a mid-year report on the Authority's Treasury Management operations for the period 1st April 2019 to 30th September 2019.
Report Owner:	Report of the Leader
Responsible Officer:	Carys Lord, Head of Finance / Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	This report needs to be referred to Council for approval.

Executive Summary:

- This interim report provides an update on the Council's Treasury Management operations for the period 1st April to 30th September 2019. All activities were in accordance with the Council's approved strategy on Treasury Management. Total external borrowing as at 30th September 2019 was £155.024m at an average rate of 4.67%. No new external borrowing was undertaken during the first 6 months of 2019/20. The Council invested with the Debt Management Deposit Facility and Local Authorities. Total investments as at 30th September 2019 stood at £99.8m at an average rate of 0.775%.
- The Council must ensure that the Prudential Code is complied with, which has been developed by CIPFA as a professional code of practice. 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 Council fully complied with these prudential indicators during the first 6 months of 2019/20.
- The Council has commenced using a new investment tool, Treasury Bills, as proposed in the 2019/20 Investment Strategy and is currently seeking advice with the Council's legal department with a view to commence investing in Money Market Funds during this financial year.

Recommendations

1. That the Treasury Management mid-year report for the period 1st April 2019 to 30th September 2019 be considered.
2. That the latest Treasury Management indicators be considered.
3. That the report be forwarded to the next Corporate Performance & Resources Scrutiny Committee for consideration.
4. That Committee approve the amended approach to the use of Treasury Bills and proposed use of Money Market Funds as investment tools.
5. That approval be given to the Section 151 Officer to sign the set off agreement for Lloyds Bank.
6. That the report be forwarded to Council for approval.

Reasons for Recommendations

1. To present the Treasury Management mid-year report as required by the CIPFA Treasury Management in the Public Services: Code of Practice.
2. To present an update of the Treasury Management indicators which are included in the Treasury Management Strategy.
3. To present this report to the Corporate Performance & Resources Scrutiny Committee.
4. To ensure Cabinet are aware of current Treasury Management practices.
5. To enable the set off agreement to be signed.
6. To comply with the Treasury Management Strategy.

1. Background

Capital Strategy

1.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- An overview of how the associated risk is managed; and
- The implications for future financial sustainability.

1.2 The Council's first Capital Strategy was approved by Council on 27th February 2019, min 780 refers.

Treasury Management

1.3 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.4 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. Key Issues for Consideration

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

2.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Corporate Resources & Performance Scrutiny Committee.

2.3 This mid-year report covers the following:

- An economic update for the first part of the 2019/20 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20 and
- A review of compliance with Treasury and Prudential Limits for 2019/20.

Economic Review

UK Economic Review

2.4 This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, although one will now be held in December 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves.

2.5 If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The Monetary Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market - this could cause wage inflation to accelerate which would then feed through into general inflation. Alternatively, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

2.6 The first half of 2019/20 has seen UK economic growth fall as a result of Brexit uncertainty. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The

MPC meeting of 19 September re-emphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the MPC have left Bank Rate unchanged at 0.75% throughout 2019.

2.7 As for inflation itself, the Consumer Price Index (CPI) has been hovering around the Bank of England's target of 2% during 2019 but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

USA Economic Review

2.8 President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9%. Since then growth in 2019 has been falling back. In July 2019, the Federal Bank cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. The programme of quantitative tightening was ended in August, (reducing its holdings of treasuries etc). Rates were cut again in September to 1.75% - 2.00% and is thought likely there will be another cut of 25 basis points in December. Investor confidence has been adversely impacted by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth.

Eurozone Economic Review

2.9 The downturn in Eurozone (EZ) growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2% has prompted the European Central Bank (ECB) to take new measures to stimulate growth. It announced a third round of Targeted Longer Term Return Operations (TLTROs) which provides banks with cheap borrowing every three months from September 2019 until March 2021 meaning 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 will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

Interest Rate Forecasts

2.10 The Council's Treasury Advisor, Link Asset Services has provided the following forecast:

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

2.11 The above forecasts have been based on an assumption that there is an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.

2.12 The MPC has left the Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC was more concerned about the outlook for both the global and domestic economies. That is shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a “gradual pace and to a limited extent” is now also conditional on “some recovery in global growth”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

The Balance of Risks to the UK

2.13 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

2.14 One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

Treasury Management Strategy 2019/20

2.15 Council approved the 2019/20 Treasury Management Strategy Statement (TMSS) at its meeting on 27th February 2019 minute no 782.

2.16 The Authority's investment strategy is to secure the best return on its investments whilst having regard to capital security within the parameters laid down.

2.17 In line with the Authority's existing borrowing strategy the revised estimate for new loans required to support the capital programme for 2019/20 is £10.340m (£3.413m supported). This sum will fluctuate dependent on the delivery of the capital programme. Given the current and projected level of Council reserves, the current low interest environment and the potential risks associated with Brexit, it is likely that the sum required will be internally borrowed during 2019/20.

2.18 Council officers in conjunction with the treasury advisors continually monitor the prevailing interest rates and the market forecasts and adopt a pragmatic approach to changing circumstances in respect of its borrowing needs.

2.19 The Head of Finance (Section 151 Officer) is pleased to report that all Treasury Management activity undertaken during the period complied with the approved strategy, the CIPFA Code of Practice and the relevant legislative provisions.

2.20 There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicators

2.21 This table shows a comparison of the original capital programme as agreed by Council on the 27th February 2019 with the revised capital budget as proposed in a report elsewhere on this agenda.

Capital Expenditure by Service	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Learning & Skills	41.401	25.603
Social Services	0.627	1.381
Environmental & Transport	8.966	24.804
Managing Director & Resources	10.777	12.935
City Deal	0.436	0.544
Housing Revenue Account	17.898	19.099
Total Capital Expenditure	**80.105**	**84.366**

Changes to the Financing of the Capital Programme

2.22 The table below shows the main sources of funding for the capital expenditure plans shown above, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Sources of Capital Financing	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
Total Capital Expenditure	80.105	84.366
Financed by:		
GCF Grant	3.230	3.230
GCF Supported Borrowing	3.413	3.413
GF Reserves & Revenue	9.359	14.172
HRA Reserves & Revenue	5.846	8.816
S106	7.556	8.545
Welsh Government Grant / Grants	39.362	33.341
Capital Receipts (General & HRA)	1.610	5.922
Total Financing	70.376	77.439
Unsupported Borrowing Requirement	**9.729**	**6.927**

Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

2.23 The table below shows the CFR, which is the underlying external need for the Council to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary. The Authority is expected not to achieve the original CFR estimate for 2019/20 due primarily to a decrease in the estimated borrowing for the Housing Revenue Account (HRA).

	2019/20 Original Estimate £m	**2019/20 Revised Estimate £m**
Prudential Indicator – the Capital Financing Requirement		
CFR – Non Housing	124.905	124.513
CFR – HRA	84.232	79.081
Total CFR	209.137	203.594
Net movement in CFR		(5.543)
Prudential Indicator – the Operational Boundary for External Debt		
Borrowing	194.831	180.487
Other Long Term Liabilities	0	0
Total Debt (Year End Position)	194.831	1**80.487**

Limits to Borrowing Activity

2.24 A key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2019/20 Original Estimate £m	2019/20 Revised Estimate £m
External Net Borrowing	153.410	153.910
Other Long Term Liabilities	0	0
Total Debt	153.410	153.910
CFR (Year End Position)	209.137	**203.594**

No difficulties are envisaged for the current or future years in complying with this prudential indicator.

The Authorised Limit

2.25 The Authorised Limit represents that limit beyond which borrowing is prohibited, and this needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2019/20 Original Indicator £m**	**2019/20 Revised Indicator £m**
Borrowing	201.556	197.641
Other long term liabilities	0	0
Total	**201.556**	**197.641**

Interest Rate Exposure

2.26 This indicator is set to control the Authority's exposure to interest rate risk. The exposures to fixed and variable rate interest rates, expressed as an amount of net principal borrowed were:

	Limit (£m)	Actual (£m)	Met
Upper limit on fixed rate exposures	153.910	147.810	✓
Upper limit on variable rate exposures	0	0	✓

2.27 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that either mature during the financial year or have a floating interest rate are classed as variable rate.

Maturity Structure of Borrowing

2.28 This indicator is set to control the Authority's exposure to refinancing risk. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The maturity structure of fixed rate borrowing as at 30th September 2019 was:

	Upper Limit	**Lower Limit**	**Actual**	**Met**
Under 12 months	20%	0%	0.76%	✓
12 months and within 24 months	20%	0%	0.54%	✓
24 months and within five years	30%	0%	15.95%	✓
Five years and within 10 years	40%	0%	20.64%	✓
10 years and above	100%	0%	62.11%	✓

Investments

2.29 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

2.30 The Authority has made the following investments for the period 1st April 2019 to 30th September 2019 as set out below:-

Borrowing Institution	**Opening Balance**	**Invested**	**Returned**	**Closing Balance**
	01/04/2019			**30/09/2019**
	£m	**£m**	**£m**	**£m**
UK Local Authorities	81.000	181.400	(171.900)	90.500
Debt Management Office	8.100	1,170.785	(1,169.585)	9.300
Total	**89.100**	**1,352.185**	**(1,341.485)**	**99.800**

2.31 Interest, at an average rate of 0.775% and amounting to £351,116 has been received from these investments during the first 6 months of 2019/20.

2.32 As can be seen from the table above the Authority has invested only with UK local authorities and the Debt Management Office (DMO). This strategy is considered prudent considering the continuing pressures in the financial markets, the threat of bail in and the uncertainty of Brexit. The Head of Finance (Section 151 Officer) will always have regard to the security and liquidity of the investments before seeking the highest rate of return or yield.

2.33 The Council will continue working with the treasury management adviser to consider other investment tools to increase return without otherwise compromising security.

Borrowing

2.34 The Council's estimated revised CFR for 2019/20 is £203.594m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing).

2.35 The following table sets out the monies externally borrowed / repaid during the period.

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2019			**30/09/2019**
	£m	**£m**	**£m**	**£m**
PWLB	146.445	0	(0.121)	146.324
Other Long Term Loans	6.000	0	0	6.000
Temporary Loans	0.100	0	0	0.100
WG Loans	2.600	0	0	2.600
Total	**155.145**	**0**	**(0.121)**	**155.024**

- Loans borrowed from the 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. The loans taken out for the Housing Revenue Account Subsidy buyout were at a predetermined range of rates specified by HM Treasury.

- Other long term loans represent those non-PWLB loans that are repayable at least 1 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.
- Temporary loans represent those loans that are borrowed for a period of less than 1 year. They are borrowed on 7 day notice.
- Welsh Government (WG) Loans are interest free loans provided by WG, one for £2.1m to progress the Barry Island Link Road Scheme and an additional loan for £0.5m to support development of the Good Shed site.

2.36 External interest at an average rate of 4.67% and amounting to £3,616,931 has been paid on these loans during the first 6 months of 2019/20.

2.37 As at the 30th September 2019 it is estimated that the Authority has internally borrowed in excess of £50m to finance the capital programme. Interest has been charged at the estimated average 3 month LIBID rate which for 2019/20 to date equates to 0.70%. This was a far cheaper alternative to borrowing externally and was affordable given the projected level of reserves. The estimated total interest to be charged to revenue for internal borrowing for pooled loans for 2019/20 is £0.279m.

2.38 When pooling the interest charges for external & internal borrowing, the average rate charged to the Council to deliver the capital programme is estimated to be 3.85%.

2.39 In addition, the Council has previously internally borrowed for the Local Government Borrowing Initiative (LGBI) for 21st Century Schools, Affordable Housing & Highways initiatives. The interest to be charged for this element of the internal borrowing for 2019/20 is £0.345m.

Debt Rescheduling

2.40 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

Changes in Risk Appetite

2.41 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

Treasury Bills

2.42 On 11th October 2019 the Authority commenced investing with the UK Government in Treasury Bills as proposed in the 2019/20 Investment Strategy. Given the uncertainty in the markets in relation to Brexit, alongside a period of very low PWLB rates available for local authorities, Treasury Bills currently offer a better return for the Council than inter-local authority investments

2.43 It is likely that given the uncertainty around Brexit, the return on the various investment tools available to the council will continue to fluctuate. Therefore, whilst the Treasury Team in consultation with the Section 151 Officer and the Council's independent Treasury Management Advisers Link Asset Management Limited will ensure a balanced portfolio, this needs to be measured against the Council's need to give regard to the security, liquidity and yield of the Councils investments. The Treasury team need to be able to respond promptly to changing market conditions. Treasury Bills fall into the UK Government category for investments (which is categorised as the highest available credit quality). It is proposed that for the remainder of the financial year no limit will be placed on the sum held by the authority in Treasury Bills including those purchased on the secondary market. Any Treasury bills purchased on the secondary market will be held to maturity.

Money Market Funds

2.44 The 2018 No.325 (W.61) Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 have been issued which have introduced some changes to the treatment of certain types of treasury management investments. Paragraph 9 of the regulations now makes clear that the following types of investment are not to be treated as being capital expenditure: -

- A treasury investment involving the acquisition of loan capital, through a bond issued via grant or for financial assistance for a capital purpose will remain capital expenditure;
- An investment in a money market fund;
- An investment in the shares of a company to which Part 12 of the Corporation Tax Act 2010(1) (real estate investment trusts) applies; and
- The acquisition of shares in an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961(2) (local authority investment).

2.45 Following the change in legislation the Council has approached two providers of these services, Federated Investors (UK) LLP and CCLA Investment Management Limited with a view of engaging them during 2019/20. Both were selected as they are domiciled in the UK and their funds rated 'AAAmmf' (highest credit quality) by the Fitch credit rating agency. The Council proposes to invest funds to a maximum of £5m in each fund in line with the Authority's strategy for investments with UK & Foreign financial institutions.

Lloyds Bank Offset Agreement

2.46 As part of the agreement with Lloyds Bank, the Council is asked on an annual basis to sign a set off agreement which includes accounts that are in our overdraft agreement. The agreement gives the bank the right at any time and without notice to combine or consolidate all of these accounts with any of our liabilities and set off or transfer any credit balance towards setting off a liability. The accounts covered by this agreement are managed on a day to day basis by the Council so that the total balance of these accounts remains positive. However, the Council does have a £2m overdraft facility so therefore this agreement currently has no impact on the Council's financial position. This does not include any stewardship accounts held on behalf of Social Services clients. Lloyds Bank have requested that formal approval is given by Cabinet to the Section 151 Officer to sign this agreement on behalf of the Council.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

3.2 The Treasury Management and Investment Strategy underpins the financial management of the Council and its ability to achieve its Well Being objectives as set out in the Corporate Plan.

4. Resources and Legal Considerations

Financial

4.1 Money is borrowed for capital purposes and interest is charges to revenue accounts

Employment

4.2 There are no direct employment issues relating to this report.

Legal (Including Equalities)

4.3 Compliance with the Local Government Act 2003 and CIFPA'S "Code of Practice for Treasury Management in the Public Services" is mandatory.

5. Background Papers

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