Appendix 2

Treasury Management Policy

Treasury Management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming year(s), 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.

The following statement, therefore, constitutes the Treasury Management Policy of the Council. Adherence to its requirements is mandatory for all matters relating to Treasury management and Investment.

Definition

The Council defines Treasury Management as:

"The management of the Council'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."

Objectives and Purpose

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks.

The Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving value for money in Treasury Management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The objectives of the policy are to: -

- Support the quality and status of Treasury Management; and
- Provide guidance on the proper practices to be employed for Treasury Management.

The purpose of this Policy is to give guidance and advice on such matters as: -

- The allocation of responsibility among the relevant staff.
- Reconciliation of the need for rapid decisions on dealing with the need to be accountable for use of delegated authority.
- Mechanisms to satisfy the statutory obligations placed upon the Monitoring Officer and the Section 151 Officer: and
- Good practice in reporting at various levels in the Council.

Procedure

All investments of money under the Council's control shall be made in the name of the Council or in the name of the nominees approved by the Council. Bearer securities shall be excluded from this regulation, but any purchase of such securities shall be reported to the Council.

All borrowings shall be effected in the name of the Council and must be authorised by the Section 151 Officer (subject to the Policy on Delegation set out below).

All money in the hands of the Council shall be under the control of the Section 151 Officer.

The Section 151 Officer shall be the Council's Registrar of Bonds and shall maintain records of all borrowings of money by the Council.

All officers acting as trustees by virtue of their official position shall deposit all securities, etc. relating to the trust with the Head of Legal Services unless the deed otherwise provides.

Formulation of Treasury Management/Investment Strategy

At or before the start of the financial year, the Section 151 Officer shall report to the Council on the Treasury Management Strategy it is proposed to adopt for the coming financial year (including Prudential Indicators for the coming three financial years). At the same time the Council will consider for adoption for the coming financial year an Annual Investment Strategy.

Borrowing Policy

Revenue budget stability is desirable and with this in mind the Council would usually borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment Policy

The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

The Council policy is to end each day with a Nil current bank account closing balance ensuring all surplus cash is always appropriately invested and investment returns are maximised.

The Council will have regard to the Welsh Government Guidance on Local Government Investments and will approve an Investment Strategy each year as part of the Treasury Management strategy. The Strategy will set criteria to determine suitable organisations with which cash may be invested and limits on the amount of cash that may be invested with any one organisation.

Policy on Custodians

To facilitate the use of some approved investment instruments (eg Treasury Bills), the use of custodian facilities are required. The Section 151 Officer may appoint a custodian to administer and safeguard any investments on behalf of the Council providing that this custodian operates at all times within the Authority's Treasury Management Policy & Investment Strategy framework.

Policy on Delegation

All executive decisions on borrowing, investment or financing shall be delegated to the Section 151 and the Deputy Section 151 Officer (in his / her absence) or through the following posts, who shall all be required to act in accordance with CIPFA's "Code for Treasury Management in the Public Services".

W-FS-AA003	Operational Manager Accountant
W-RM-AC015	Senior Accounting Technician
W-RM-AC016	Senior Accounting Technician
W-RM-AC006	Capital Accountant
W-RM-AC014	Corporate Accountant
W-RM-AC003	Finance Support Manager
W-RM-AC004	HRA Accountant

Review Requirements and Reporting Arrangements

The Section 151 Officer shall report to the Council as follows:
Before the 31st March each year

- The Treasury Management Prudential Indicators for the forthcoming three years; and
- The Treasury Management Strategy and Annual Investment Strategy for the following year (the Treasury Management Strategy also incorporates the indicators for the forthcoming three year.

A revised Treasury Management and Investment Strategy including any appropriate revisions to the MRP policy may be prepared if at any time it is considered appropriate.

Monitor and report performance against all forward-looking prudential indicators at least quarterly. (Not required to be reported to Full Council but must be adequately scrutinised by the Corporate Performance & Resources Scrutiny Committee).

A mid-year review during the current year.

A report on the outturn for the previous year will be taken to Committee as soon as possible after the end of the financial year.

The Section 151 Officer shall also report to Cabinet and/or Scrutiny Committee other monitoring reports that are considered necessary to comply with CIPFA's "Code for Treasury Management in the Public Services".

Scheme of Delegation

(i) Full Council

- Receiving and reviewing reports on Treasury Management policies, practices and activities; and
- Approval of annual Treasury Management & Investment Strategy.

(ii) Cabinet

- Approval of/amendments to the organisation's adopted clauses, Treasury Management Policy Statement and Treasury Management practices;
- Budget consideration and approval;
- Receiving and reviewing regular monitoring reports and acting on recommendations; and

(iii) Scrutiny Committee

- Reviewing the Treasury Management policy and procedures and making recommendations to the responsible body.

The Role of the Section 151 Officer

The S151 Officer will be responsible for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular Treasury Management policy reports.
- Submitting budgets and budgets variations.
- Reviewing the performance of the Treasury Management function.

- Ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- The appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money; and
- Ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management).

- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- Ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- Ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
- Ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- Creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

Environmental, Social & Governance (ESG) Considerations

Ethical investing is a topic of increasing significance within Treasury Management approaches. However, investment guidance, both statutory and from CIPFA, makes clear that all investment activities must adopt the principles of security, liquidity and yield and therefore ethical issues must play a subordinate role to those priorities.

Project Zero is the Vale of Glamorgan Council's response to the climate change emergency. Project Zero brings together the wide range of work and opportunities available to tackle the climate emergency, reduce the Council's carbon emissions to net zero by 2030 and encourage others to make positive changes. In July 2019, The Council joined Welsh Government and other Local Authorities across the UK in declaring a Climate Emergency in response to the United Nations' Intergovernmental Panel on Climate Change report into the impact of global warming. Since then, the Council has continued to make changes across the organisation embarking on ambitious projects to reduce the Council's carbon emissions and to send a clear message that we must all work together to adapt to and mitigate the effects of climate change. A number of decarbonisation schemes are included within the five year Capital Programme, further detail can be found within the Capital Strategy.

Most of the Council's investments are placed with the UK Government or Local Authorities. As the majority have declared a climate and nature emergency, the Council are accepting that they are following ESG principles and therefore will continue to place investments with them. Should the Council become aware of any Local Authority that goes against these principles the Council will no longer consider the organisation for investment purposes.

The remainder of the Council's investments are placed with the CCLA & Federated Hermes money market funds domiciled in the UK. Both are AAA rated by the three main credit rating agencies as mentioned earlier in the Investment Strategy. Credit rating agencies now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings Both money market funds recognise their responsibilities concerning ESG and their approach to and policies for ESG are summarised below.

CCLA

CCLA believe that investment markets and in turn, investment returns will only be as healthy as the environment and communities that support them. CCLA therefore focus on some of the world's most pressing challenges in order to build a future that can continue to support sustainable returns for their clients, and outcomes for the planet. CCLA has a long track record of investing responsibly to deliver positive change in company practice and performance, and of pushing for progress to meet the world's sustainability challenges. CCLA have always aimed to be a catalyst for change in the investment industry and to invest responsibly for their clients, and for the planet.

Federated Hermes

Federated Hermes takes a pragmatic view of the investment universe to identify stocks with the most attractive combinations of fundamental characteristics. Federated Hermes look for companies with sustainable business models and competitive advantages. In addition, it is important that companies behave responsibly, which leads them to companies that are well governed and treat their responsibilities to society and the environment seriously. At Federated Hermes they believe companies less exposed to ESG risks will outperform over the long term and that companies improving their ESG profiles can unlock significant shareholder value. Their investment philosophy can be encapsulated in these words:

- Pragmatism.
- Sustainability.
- Responsibility.

The Council's Appointed Banker and ESG

The Council's appointed banker is Lloyds Bank PLC and has two interest yielding deposit accounts with them. Lloyds Bank approach to ESG is as follows:

Lloyd's strategy focuses on building an inclusive society and supporting the transition to a low carbon economy as this is where we can make the biggest difference, whilst creating new avenues for our future growth. They consider that it is only by doing right by their customers, colleagues, and communities that they can achieve higher, more sustainable returns for investors, and generate value for all their stakeholders. ESG performance measures to continue to drive progress towards environmental sustainability and their diversity and inclusion ambitions.

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 cash flow 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.

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 bank account, however the account would be set up by the lead contractor.

The Council has utilised the Project Bank Account approach for the delivery of a number of Sustainable Communities for Learning schemes.

MiFID II

Local authorities had 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 are 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 Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council meets the conditions to opt up to professional status and has opted to do so with the Council's treasury advisers Link Asset Management and the brokers that it transacts with in order to maintain their current MiFID status.

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