

Swansea Bay City Region Joint Committee – 11 June 2020

Distribution of Investment Interest

Purpose:	The purpose of this report is to inform Joint Committee of the recommendations in respect of the treatment of interest earned through the investment of programme cash balances.
Policy Framework:	Swansea Bay City Deal
Consultation:	Accountable Body
Recommendation(s):	It is recommended that Joint Committee:
1)	Review and agree the preferred method of distribution from the alternative recommendations as set out in section 2 of the report in respect of the treatment of interest income earned as a result of the investment of programme cash balances.
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1. Introduction

This report outlines proposed recommendations in respect of the distribution of interest earned through investment of programme cash balances to projects in an efficient and equitable manner.

2. Background

It is recognised that throughout the lifecycle of the City Deal Programme, cash balances will arise through cashflow movements as and when projects become live, and actual expenditure is incurred.

Programme balances are invested in line with Carmarthenshire County Council's Treasury Management Policy to optimise the return on cash surpluses. Interest is calculated on an average rate and ring-fenced to the City Deal programme. Throughout the year balances have been invested through approved institutions in short-term financial instruments in adherence to the protocols set out within the applied Treasury Policy. Within the Treasury strategy investments are only employed with counterparties whose risk appetite is very low.

Carmarthenshire County Council carries out its treasury management activities in accordance with the Prudential Code of Practice first developed for public services in 2002 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code was last revised in 2017. The Council also carries out its treasury management activities in accordance with the CIPFA Treasury Management Code of Practice 2017.

The revised Code identifies three key principles:

1. The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
2. The Council's policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their Council. The Council's appetite for risk should form part of its annual strategy and should ensure that priority is given to security and liquidity when investing funds.
3. The Council should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible Councils to employ in support of their business and service objectives; and that within the context of effective risk management, the Council's treasury management policies and practices should reflect this.

The Council's Director of Corporate Services maintains a counterparty list in compliance with the criteria listed below and revises the criteria and submits them to Council for approval as necessary. This criteria is separate to that which approves Specified and Non-Specified investments as it selects which counterparties the Council will approve rather than defining what its investments are. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by all three agencies and two meet the Council's criteria, and the other does not, the institution will fall outside the lending criteria.

Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. To meet this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

Furthermore, to support projects with cashflow pressures, the Joint Committee agreed to afford lending of any cash surpluses held within the Programme (JC - 29 Oct 2019) to Lead Authorities. This lending will attribute a charge of 0.25% above the Bank of England base rate and will be offered on a twelve-month term as programme cashflows determine. This programme lending option is advantageous to Local Authorities as it allows for reduced borrowing at no detriment to the programme or its partners.

Recommendation Options

1. Interest from City Deal investments would offset the Joint Committee centralised expenditure budget. This in effect is utilising interest being a revenue income source to offset revenue expenditure, resulting in less demand on the 1.5% 'Top Slice' of Government grants.

Or

2. Interest generated is redistributed direct to projects based on the allocation outlined within the original heads of terms.

3. Financial Implications

The financial implications of the above recommendations offer a further source of funding to financially support projects. The direct impact on Local Authorities is advantageous, as the distribution of interest earned will result in less demand on borrowing, with savings achieved in respect of the associated costs borrowing.

Both recommendations redistribute interest to Authorities in a fair, equitable and objective manner, in line with the core principles of the Joint Committee.

4. Legal Implications

No legal implications.

Background Papers: None

Appendices: None