Agenda Item: 14

Meeting of:	**Cabinet**
Date of Meeting:	**Monday, 28 February 2022**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	**Treasury Management and Investment Strategy 2022/23 and Update for 2021/22**
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2021 and to submit for consideration the proposed 2022/23 Treasury Management and Investment Strategy.
Report Owner:	**Report of the Executive Leader and Cabinet Member for Performance and Resources**
Responsible Officer:	**Carolyn Michael Interim 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 31st December 2021. All activities were in accordance with the Council's approved strategy on Treasury Management. Details of monies borrowed and repaid and those invested are outlined in the report.
- The report presents the proposed 2022/23 Treasury Management and Investment Strategy at Appendix 1.
- 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. These are shown in Appendix 1 as part of the Strategy.
- The Council also has a legal requirement to comply with the Welsh Government Guidance on Investments and has taken this into consideration when developing the Strategy.
- Capital expenditure when financed by long term debt incurs two elements of cost, interest on and repayment of the principal sum borrowed. The resources the Council must put aside in each

year to repay the principal sum borrowed is known as Minimum Revenue Provision (MRP) and the Council's policy for calculation is detailed in the report.

- The Treasury Management Policy Statement for 2022/23 is attached at Appendix 2.
- The Council will formally adopt the new CIPFA 2021 edition of The Prudential code published in December 2021 together with the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes.

Recommendations

1. That the Treasury Management interim report for the period 1st April to 31st December 2021 be endorsed.
2. That the policy for making Minimum Revenue Provision in 2022/23 be approved.
3. That Cabinet recommend to Council on 7th March, 2022 that the proposed 2022/23 Treasury Management and Investment Strategy be approved including the following specific resolutions (detailed in Appendix 1):

- The Authorised Limit for External Debt be set at £223.352m for 2021/22, £241.693m for 2022/23, £274.792m for 2023/24 and £288.151m for 2024/25.
- The Operational Boundary for External Debt be set at £212.948m for 2021/22, £230.785m for 2022/23, £264.384m for 2023/24 and £277.743m for 2024/25.
- The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long term liabilities.
- An upper limit is set on its fixed interest rate exposures of £148.716m for 2021/22, for 2022/23 of £172.311m, for 2023/24 of £208.615m and for 2024/25 of £230.455m of its net outstanding principal sum on its borrowings / investments.
- An upper limit is set on its variable interest rate exposures of £0 for 2021/22, 2022/23, 2023/24 and 2024/25 of its net outstanding principal sum on its investments.
- An upper limit of £10m for 2021/22, £10m for 2022/23, £10m in 2023/24 and £10m in 2024/25 is set for total principal sums invested for over 364 days.
- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2022/23 be set as

	Upper Limit	**Lower Limit**
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

- The Prudential Indicators set out in Appendix 1 be approved.
- The Treasury Management Policy set out in Appendix 2 be approved.

4. The formal adoption of the new CIPFA 2021 edition of The Prudential Code together with the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes be approved.

5. That the urgent decision procedure as set out in Section 14:14 of the Council's Constitution be used in order for the Treasury Management and Investment Strategy 2022/23 and Update for 2021/22 to be referred to Full Council on 7th March, 2022.

Reasons for Recommendations

1. To present the Treasury Management Interim Report.
2. To agree the basis of the Minimum Revenue Provision calculation for 2022/23.
3. The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.
4. Approval of the adoption of the new CIPFA 2021 edition of The Prudential Code together with the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes is a statutory requirement.
5. To allow this matter to be referred to Full Council on 7th March, 2022.

1. Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash income raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing security and adequate liquidity initially before considering investment return.

1.2 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 that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the Treasury Management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity to meet spending commitments as they fall due, either for day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Revised reporting was introduced for the 2019/20 reporting cycle due to revisions of the Welsh Government Investment Guidance, the Welsh Government Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a Capital Strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity which may be undertaken by the Council. This Council has not engaged in any commercial investments and does not have any non-treasury investments.

1.5 The Capital Strategy is being reported to members as a separate report on this agenda.

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

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

1.8 The key objectives of the fully revised Prudential Code are to ensure that the capital investment plans of local authorities:

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

2. Key Issues for Consideration

Treasury Management Reporting

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

Treasury Management & Investment Strategy

2.2 A report presented and approved before the start of the financial year which is forward looking and covers the Authority's:

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

Mid-Year Treasury Management Report

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

Annual Treasury Management Report

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

2.5 The proposed Treasury Management and Investment Strategy for 2022/23, is attached at Appendix 1. The Treasury Management Strategy itself covers a rolling period of three years and is intended to link into the Medium Term Financial Planning process. The Investment Strategy covers the next financial year. The document also includes a number of statutory Prudential Indicators that may be used to support and record local decision-making.

2.6 IFRS16 is an accounting standard that will bring the assets and liabilities associated with the Council's lease assets on balance sheet. CIPFA is currently out to consultation on a proposal that includes delaying leasing for 1 year. In the context of this proposed delay the Council continues to undertake an assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements. If required, a revised Treasury Management Strategy with updated indicators that incorporate these estimates will be reported as part of the Mid Year Treasury Management Report 2022/23 and if not will be incorporated into the Treasury Management Strategy for 2023/24.

2.7 On 20th December 2021 CIPFA published its revised edition of The Prudential Code together with revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes. Although the Council is formally adopting this new legislation in this report, CIPFA are permitting a soft launch of the new guidance for 2022/23 but state that all Council's must be fully compliant with the new reporting requirements in 2023/24.

Proposed Strategy 2022/23

Balance Sheet Projections

2.8 To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2022/23 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2022/23 to 2026/27.

2.9 As at 31st March 2021 Capital Financing Requirement was £198.763m of which 23% or £46.028m was internally borrowed. The Council had external borrowing of £152.735m.

2.10 It is important that the level of Internal Borrowing as a percentage of the total borrowing requirement is kept under review by the Council to monitor the interest rate risk that the Council is exposed to.

2.11 As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of external borrowing required in future years. The level of external borrowing is projected to increase as the Council commits to further prudential borrowing, repays existing debt and the balances available to fund current supported borrowing reduces.

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£000	**£000**	**£000**	**£000**	**£000**
Capital Financing Requirement	**216,183**	**247,490**	**263,384**	**265,636**	**269,843**
Less External Borrowing	**(176,411)**	**(212,715)**	**(234,555)**	**(243,387)**	**(254,192)**
Internal Borrowing	**39,772**	**34,775**	**28,829**	**22,249**	**15,651**
Internal Borrowing as a % of Capital Financing Requirement	**18%**	**14%**	**11%**	**8%**	**6%**
Reserves, Capital Balances and Provisions	**67,711**	**63,516**	**61,285**	**59,193**	**59,193**
Capital Receipts	**3,694**	**3,694**	**3,694**	**3,694**	**3,994**
Total Cash Backed Reserves and Provisions	**71,405**	**67,210**	**64,979**	**62,887**	**63,187**
Less External Investments Target	30,000	30,000	30,000	30,000	30,000
Balance Available for Internal Borrowing	**41,405**	**37,210**	**34,979**	**32,887**	**33,187**

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Working Capital Surplus	11,584	11,584	11,584	11,584	13,041
Projected External Investments	31,633	32,435	36,150	40,638	47,536
Total Projected Investments Balance	43,217	44,019	47,734	52,222	60,577

Borrowing Strategy

2.12 The Council's approach to the borrowing requirements in recent years on the advice of the Council's Treasury Management adviser has been to adopt a policy of avoiding new external borrowing by running down spare cash balances and reserves to finance capital expenditure. This policy has been based on the high levels of reserves held by the Council. This strategy is prudent as investment returns are low and counterparty risk is an issue that needs to be considered. However, with borrowing costs now on the rise and likely to continue rising for the foreseeable future it is now the appropriate time to recommence borrowing externally to finance matured debt and the capital programme. Longer-term borrowing should also be undertaken for the purpose of certainty and interest rate risk.

2.13 The Council's Final Capital Proposals 2022/23 to 2026/27 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £36M for the Council Fund and £69M for HRA.

Scheme	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£000	£000	£000	£000	£000	£000
General Fund						
Supported Borrowing	3,451	4,141	4,141	3,451	3,451	18,635
Unsupported Borrowing						
Sustainable Community Learning Programme	3,324	1,315	2,983	0	0	7,622
City Deal	273	4,373	2,289	0	0	6,935
Vehicles	963	364	0	0	0	1,327
Buttrills Changing Rooms	0	500	1,000	0	0	1,500
Total General Fund	8,011	10,693	10,413	3,451	3,451	36,019
Housing Revenue Account						
Housing Revenue Account	16,056	26,681	12,418	6,059	8,170	69,384
Total New Borrowing	24,067	37,374	22,831	9,510	11,621	105,403

2.14 The Council is also projecting to use £5.120m of Capital receipts between 2022/23 and 2026/27. In addition, as part of the Final Revenue Proposals for 2022/23 the Council sets out a reduction in its reserves of 85% or £49m to 31 March 2025. This reduces the Council's ability to finance borrowing through internal borrowing.

2.15 Another factor influencing the Council's borrowing strategy is the high level of maturities on the Council's existing external debt over the coming years which is £39m between 2022/23 and 2026/27.

2.16 Taking these factors into account and the Council's requirement to hold approximately £30m in investment balances, the Council's additional external borrowing requirement will be £142m over the coming five years as set out in the table below. Balance Sheet projections for the period of the Strategy are set out in paragraphs 2.8 to 2.11 of this report.

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Net Borrowing	24,000	37,000	22,000	9,000	11,000	103,000
Replacement Borrowing	8,000	9,000	7,000	6,000	9,000	39,000
Total External Borrowing	**32,000**	**46,000**	**29,000**	**15,000**	**20,000**	**142,000**

2.17 The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will need to keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing. Whilst it is highly likely that any new borrowing will be carried out with the PWLB, shorter term financing and alternative providers will be considered.

Investment Strategy

2.18 As set out in the Council's Balance Sheet projections in paragraphs 2.8 to 2.11, the Council, following discussions with Link Asset Management Ltd. will seek to maintain a minimum £30m investment balance in addition to any working capital surplus during the period. The accuracy of these estimates will again be impacted by the use of reserves as planned and the delivery of the capital programme as profiled.

2.19 In 2022/23 the Council will place investments with the Debt Management Account Deposit Facility (DMADF) of the Bank of England and UK Treasury Bills which are guaranteed by the UK Government, with UK Local Authorities (including Police and Fire Authorities), in Money Market Funds, in Instant Access Accounts and in Corporate Notice Accounts. The Council may consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

2.20 The Council will continually review the financial stability of all parties with whom it places investments.

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

2.22 The Treasury Management section will in 2022/23 retain the maximum principal investment at £5m and normally will invest up to a period of 12 months with Local Authorities (including Fire and Police Authorities). Where appropriate the Council will consider opportunities to invest for a longer period not exceeding two years in consultation with our Treasury Management Advisers. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.

2.23 CCLA Investment Management Ltd and Federated Hermes UK operate Money Market Funds on behalf of the Council. Both are domiciled in the UK. The maximum investment in each is £10m.

2.24 The instant access accounts are held with Lloyds Bank PLC. One of these accounts offers a small bonus for deposits placed in excess of one month. Both are low interest yielding accounts but have the benefit of instant access to the funds deposited. The maximum investment in each account is £5m.

2.25 On 8th December 2021 the Council opened 3 corporate notice accounts (35, 95 and 180 day) with Santander PLC. Investments yield a more favourable rate of interest on the initial deposit and then a lower yield when the appropriate period of notice is requested. The maximum total investment that can be placed with Santander PLC at any time is £10m.

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

Interim Report

2.27 All Treasury Management activities for the period 1st April to 31st December 2021 were in accordance with the Council’s approved strategy on Treasury Management. The following table sets out the monies borrowed & repaid during the period.

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2021			**31/12/2021**
	£000	**£000**	**£000**	**£000**
PWLB	144,417	0	(5,915)	138,502

LOBO Loans	6,000	0	(2,000)	4,000
WG Government Loans	1,050	0	(0)	1,050
Salix Loans	1,168	0	(0)	1,168
Temporary Loans	100	0	(0)	100
Total	**152,735**	**0**	**(7,915)**	**144,820**

2.28 Loans borrowed from the PWLB are intended to assist local authorities in meeting their long 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 average interest rate on all the Council's outstanding PWLB debt has moved over the period 1st April - 31st December 2021 from 4.6926% to 4.6391%.

2.29 The remaining LOBO (Lenders Option Borrowers Option) loan represents a non PWLB loan that was advanced to the Council in February 2004 at a rate of interest of 4.5%. This loan is repayable in 2054.

2.30 Welsh Government (WG) loans are made up of two interest free loans advanced by WG, a Concessionary Loan for £500k and a Town Centre Loan for £550k.

2.31 Two loans are included which have been advanced by Salix for £1,134k & £34k respectively. These have been borrowed to fund energy management schemes, primarily street lighting. Both loans are interest free.

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

2.33 The Council's investments for the period to 31st December 2021 are set out in the following table.

Investment Counterparty	**Opening Balance**	**Invested**	**Repaid**	**Closing Balance**
	01/04/2021			**31/12/2021**
	£000	**£000**	**£000**	**£000**
Local Authorities	68,750	56,500	(79,750)	45,500
Debt Management Office (DMO)	0	151,250	(142,600)	8,650
Treasury Bills	0	4,000	(4,000)	0
Money Market Funds (MMF)	18,650	40,050	(50,700)	8,000
Lloyds Instant Access Accounts	4,760	56,800	(56,750)	4,810
Santander Corporate Notice Accounts	0	2,250	(0)	2,250
Total	**92,160**	**310,850**	**(333,800)**	**69,210**

2.34 Interest at an average rate of 0.0984% and amounting to £222,815.95 (including accrued interest from 2020/21) has been received from maturing Local Authority and Debt Management Deposit Facility investments for the first 9 months of 2020/21.

2.35 The average rate of return on the CCLA Money Market Fund was 0.0347% and on the Federated Hermes Money Market Fund 0.0112% with yields of £2,456.04 & £353.04 respectively.

2.36 The Lloyds Instant Access and Monthly Bonus Accounts yielded a return of £501.40 at an average rate of 0.01%. One of accounts offers a monthly bonus if funds were deposited for 1 month. Bonus interest paid during the period was an additional £155.19.

2.37 The Council Authority made one investment in Treasury Bills which yielded a return of £797.65 at a rate of 0.3992%. For the majority of the accounting period under review treasury bills offered exceedingly low or negative returns.

2.38 No interest has been received on the Santander Corporate Notice Accounts at the time of writing this report however interest is accruing on a daily basis on the funds invested at an estimated yield of 0.1444%.

Annual Minimum Revenue Provision Statement 2022/23

2.39 Capital expenditure when financed by long term debt incurs two elements of cost- interest on and repayment of the principal sum borrowed. The resource the Council must put aside in each year to repay the principal sum borrowed is known as the Minimum Revenue Provision (MRP). Pre 2008 there were detailed statutory rules for the calculation of MRP as laid down in the 2003 regulations but the introduction of the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 which became effective from the 31st March 2008, replaced these statutory rules with: 'A local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent'.

2.40 Welsh Government has issued guidance on what constitutes prudent provision, and this requires the Council to approve an annual statement of its policy on calculating MRP. The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

2.41 The following statement incorporates options recommended in the Guidance.

2.42 For supported capital expenditure the Council will implement the "Asset Life Method". MRP will be determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.

2.43 For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life method". MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

2.44 Included in the 2021/22 revenue estimates are principal repayments totalling £388k in respect of prudential (unsupported) Borrowing (i.e. not supported for revenue purposes). Of this funding £62k is in respect of 21st Century Schools. The provision made in respect of these schemes is commensurate with asset life as estimated by the Council's external valuer. Provision of £171k has been made for the repayments against a loan of £1.2m for refuse vehicles over an expected life of 7 years and £155k in respect of loans raised for City Deal over a set period of 20 years.

2.45 MRP on the one loan borrowed from Salix SEELS for the boiler refit at Stanwell School amounted to £4k. The MRP repayments on the Street Lighting Energy Reduction strategy loan borrowed from Salix commence in 2022/23.

2.46 In addition, £464k has been included in respect of the Local Government Borrowing Initiative (LGBI) funding from WG for 21st Century Schools, the Local Road Network Improvement scheme and Affordable Housing. The provision in respect of LGBI schemes is commensurate with the applicable WG funding streams through the Revenue Support Grant. Loans have been raised on an annuity basis so MRP contributions vary annually.

2.47 MRP will be charged at 2% of the outstanding Housing Revenue Account (HRA) Capital Financing Requirement in respect of housing assets.

2.48 For debt incurred from 2021/22 onwards the HRA will move to an Asset Life method (50 years) for calculating the Minimum Revenue Provision.

2.49 Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24.

2.50 The estimates associated with the Council's lease liability are not reflected in these MRP estimates. IFRS16 is the accounting standard that will bring the assets and liabilities associated with the Council's leased assets onto the balance sheet. However, CIPFA is currently out to consultation on a proposal that includes delaying leasing for 1 year.

2.51 Based on the Council’s latest estimate of its Capital Financing Requirement on 31st March 2022, the budget for MRP has been set as follows:

	31.03.2022 Estimated CFR £000	**2022/23 Estimated MRP £000**

General Fund		
Supported capital expenditure	105,545	2,906
Unsupported capital expenditure	13,995	758
Total General Fund	**119,540**	**3,664**
Housing Revenue Account	78,080	1,618
Total	**197,620**	**5,282**

2.52 The Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

Treasury Management Policy

2.53 Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming years, account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy. Adherence to its requirements is mandatory for all matters relating to Treasury Management and investments and the Policy for 2022/23 is attached at Appendix 2.

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 charged 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 CIPFA'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 Services" (2017 Edition), "The Prudential Code" (2017), The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition), The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes (2021 Edition) and WG guidance on local authority investments

Committee papers for Audit Committee 31st January 2018 - Proposal to Amend the Minimum Revenue Proposals 2018-19 Policy.

Appendix 1

Treasury Management and Investment Strategy 2022/23

Introduction

The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2022/23 to 2024/25. The plan forms an integral part of the Council's strategic planning process, linking in with the Medium Term Financial Plan, Capital Strategy and annual budget cycle.

This Treasury Management Strategy has been prepared taking into account the following:

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA Statement (17/10/18) on borrowing in advance of need and investment in commercial properties
- Local Government Act 2003
- Welsh Government Guidance on Investments
- Revised CIPFA Treasury Management In the Public Services Cross Sectional Guidance Notes 2021 Edition
- Revised CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition

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

The Welsh Government guidance notes lay down the 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.

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

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

Revised CIPFA Treasury Management and Prudential Code

CIPFA published revised codes of Practice on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any other related reports during the financial year, which are required to be taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- address Environmental, Social & Government (ESG) issues within the Capital Strategy;

- require implementation of a policy to review commercial property, with a view to divest where appropriate;

- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;

- amendment to Treasury Management Practice (TMP)1 (to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management

Treasury Management Investments arise from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Service Delivery Investments are held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

The Council is currently proposing a Service Investment Fund is established in 2022/23. The Economic Regeneration and Growth Fund which is intended to address opportunities identified in the Council's Recovery Strategy to support innovative business and economic regeneration, increase capital programme investment and focus on green jobs and green infrastructure.

The Economic Regeneration and Growth Fund is to be funded using £2.2m of the Economic Regeneration and Growth reserve and with provision for up to £10m Prudential Borrowing. The fund for Investment totals £12m with £200k earmarked for feasibility and due diligence costs and the initial costs associated with specialist Non Treasury Investment Advice.

Commercial return

Commercial Return Investments are held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for the Authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be included within the 2023/24 Treasury Management Strategy Statement report.

The Treasury Management Strategy

The Strategy for 2022/232 covers two main areas:

Capital Issues

- Capital expenditure plans and the associated prudential indicators
- Minimum revenue provision (MRP) policy

Treasury Management Issues

* Economic background
* Prospects for interest rates
* Borrowing Strategy (including Current Treasury Position)
* Treasury indicators which limit the treasury risk and activities of the Council
* Policy on borrowing in advance of need
* Debt rescheduling
* Management of Housing Revenue Account (HRA) Debt
* Investment Strategy
* Creditworthiness policy
* Other investment tools
* External service providers
* Environmental, Social & Government (ESG) issues
* Treasury Management Training
* City Deal

Capital Expenditure Plans and the Associated Prudential Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure – Prudential Indicator No. 1

The figures shown in the following table are a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Capital Expenditure	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Learning & Skills	47,644	38,298	20,381	19,983	8,779
Social Services	831	1,828	180	100	100
City Deal	170	0	273	4,373	2,289
Environment & Transport	11,100	16,622	17,937	2,674	2,810

Managing Director & Resources	9,392	7,330	0	0	0
Resources	0	0	856	3,777	3,934
Place	0	0	5801	1,607	1,450
Non HRA total	**69,137**	**64,078**	**45,428**	**32,514**	**19,362**
HRA	9,223	14,643	39,778	40,345	23,726
Total	**78,360**	**78,721**	**85,206**	**72,859**	**43,088**

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

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to increase borrowing.

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
GCF Grant	3,403	3,438	**2,378**	2,853	2,853
GCF Supported Borrowing	3,393	3,429	3,451	4,141	4,141
GF Reserves & Revenue	3,912	15,761	13,413	904	900
Supported Borrowing HRA	515	0	0	0	0
HRA Reserves & Revenue	4,843	7,526	18,452	6,894	7,038
HRA Appropriation	0	740	0	0	0
Prudential Borrowing	999	686	20,343	28,859	16,401
City Deal	0	0	273	4,373	2,289
S106	5,280	6,902	8,484	3,226	2,576
Grant	52,808	35,460	13,292	21,609	6,890
Capital Receipt	3,207	4,779	5,120	0	0
Net Financing Need For Year CFR	**78,360**	**78,721**	**85,206**	**72,859**	**43,088**

The Council’s Borrowing Need - Capital Financing Requirement (CFR) – Prudential Indicator No. 2

The Capital Finance Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and so it’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

The Council's CFR projections are listed below:

	2020/21	2021/22	2022/23	2023/24	2024/2025
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Non HRA CFR	119,822	119,540	123,665	130,233	136,188
HRA CFR	78,941	78,080	92,518	117,257	127,196
Total CFR	**198,763**	**197,620**	**216,183**	**247,490**	**263,384**

In-Year Movement CFR	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/2024 Estimate £000	2024/2025 Estimate £000
Non HRA	(120)	(282)	4,125	6,568	5,955
HRA	(196)	(861)	14,438	24,739	9,939
Total	**(316)**	**(1,143)**	**18,563**	**31,307**	**15,894**

Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Fund Bals / Reserves	105,049	98,254	67,711	63,516	61,285
Capital Receipts	13,392	8,814	3,694	3,694	3,694
Total Core Funds	118,441	107,068	71,405	67,210	64,979
Working Capital	11,584	11,584	11,584	11,584	11,584
Under Borrowing	(46,051)	(44,804)	(39,772)	(34,775)	(28,829)
Expected Investments	**83,974**	**73,848**	**43,217**	**44,019**	**47,734**

Minimum Revenue Provision (MRP)

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

Welsh Government regulations have been issued which require the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council's MRP Statement is set out below.

MRP Statement

For supported capital expenditure the Council will implement the "Asset Life Method". MRP will be determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.

For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life method". MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

MRP will be charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets for debt incurred before 2021/22. From 2021/22 onwards Council will again implement the "Asset Life method" and MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments (50years), starting in the year after the asset becomes operational. Affordable Housing is the exception where MRP is calculated on an annuity basis.

Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until 2023/24.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2022, the budget for MRP has been set as follows:

	31.03.2022 Estimated CFR £000	**2022/23 Estimated MRP £000**
General Fund		
Supported Capital Expenditure	105,545	2,906
Unsupported Capital Expenditure	13,995	758
Total General Fund	**119,540**	**3,664**
Housing Revenue Account	78,080	1,618
Total	**197,620**	**5,282**

MRP Overpayments

A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this Authority must disclose any cumulative overpayment made each year.

Economic Background

UK

- The Covid -19 vaccines raised hopes that life in the UK would be able to largely return to normal in the second half of 2021. However, the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. It was feared that a fourth wave of the virus could overwhelm hospitals in early 2022 but to date this has not been the case although the virus is very fast spreading it has not caused the level of severe illness as with previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time focussed on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster was shown to restore a high percentage of immunity to the Omicron variant. In addition, home working and restrictions placed on large indoor gatherings and hospitality venues were reintroduced. This policy appears to have been successful and the economies of the four nations have now been reopening in January 2022.
- The Monetary Policy Committee (MPC) at its meeting on the 16th, December 2021 voted 8-1 to raise the Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

- The MPC disappointed financial markets by not raising the Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters viewed a Bank Rate increase as being near certain at the December meeting due to the way that inflationary pressures had been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply. Therefore, their decision was to wait until statistics were available to show how the economy had fared at this time.

- On the 14th, December 2021 the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data was more informative and showed that Labour Force Survey (LFS) employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of

October. A further 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November.

- On 15th December the CPI inflation figure for November rose sharply from 4.2% to 5.1%, confirming that inflationary pressures have been building up sharply in the economy with gas and electricity accounting for about 60% of this increase.

- Since the last meeting in December 2021 there has been a material reappraisal by the MPC of inflationary pressures and the Bank of England (BOE) has increased its forecast for inflation to peak at 6 or even 7%. As such, the Bank could be thinking about raising interest rates either two or three times during next year to 0.75% or 1.00%.

- After the Bank of England became the first major western central bank to put interest rates up in December 2021 the MPC at its meeting on the 4th, February 2022 quickly followed up its first increase of 0.15% by another 0.25% rise to 0.50%, in the second of what is very likely to be a series of increases during 2022.
- The Monetary Policy Committee voted by a majority of 5-4 to increase Bank Rate by 25 basis points (bps) to 0.5% with the minority preferring to increase Bank Rate by 50bps to 0.75%. The Committee also voted unanimously to reduce the £875n stock of UK government bond purchases, financed by the issuance of central bank reserves by ceasing to reinvest maturing assets and to begin to reduce the £20bn stock of sterling non-financial investment-grade corporate bond purchases by also ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
- The Bank again sharply increased its forecast for inflation, now to reach a peak of 7.25% in April, well above its 2% target.
- The Bank estimated that UK Gross Domestic Product (GDP) rose by 1.1% in quarter 4 of 2021 but, because of the effect of the Omicron strain of the virus, GDP would be flat in quarter 1 of 2022. However, with the economy recovering during February and March 2022. and higher inflation due to the hit to households' real incomes, the forecast for GDP growth was revised down to 3.25% from 3.75% for 2022 as a whole.
- As in the December 2021 MPC meeting, the MPC was more concerned with combating inflation over the medium term than supporting economic growth in the short term. However, what was notable was the Bank's forecast for inflation based on the markets' expectations that Bank Rate will rise to 1.50% by mid-2023, it forecast inflation to be only 1.6% in three years' time. In addition, if energy prices beyond the next six months fell as the futures market suggests, the Bank said CPI inflation in three years' time would be even lower at 1.25%. With calculations of inflation, the key point to keep in mind is that it is the rate of change in prices, not the level that matters. Accordingly, even if oil and natural gas prices remain flat at their current elevated level, energy's contribution to headline inflation will drop back over the course of this year. That means the current energy contribution to CPI inflation, of 2% to 3%, will gradually fade over the next year.

- The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows: -

- 1. Raising Bank Rate as "the active instrument in most circumstances".
- 2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
- 3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
- 4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

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USA

- During the first part of 2021, the determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid-19 pandemic unsettled financial markets as this was in addition to the $900bn support package previously passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when:

- A fast vaccination programme roll out had enabled a rapid opening up of the economy during 2021.
- The economy was growing strongly during the first half of 2021 although it has weakened in the second half.
- It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
- The Federal Bank was still providing substantial stimulus through monthly Quantative (QE) purchases.
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- The combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Federal Bank at its 15th December 2021 which met with an aggressive response to dampen inflation down during 2022 and 2023.

- At the Federal Bank meeting on the 3rd, November 2021 the bank decided to make a start on tapering its $120bn per month of QE purchases so that they would end next June. However, at its 15th December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that treasury yields will rise over the taper period, all other things being equal.

- It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024. This would take rates back above 2% to a neutral level for monetary policy. It also gave up on calling the sharp rise in inflation as being 'transitory'.

- At the meeting on the 26th, January 2022, the Federal Bank indicated that rates would begin to rise very soon to combat inflationary pressures and implied that at the March meeting it would increase rates and start to run down its holdings of QE purchases. It also appears likely it could take action to force longer term treasury yields up by prioritising selling holdings of its longer bonds as yields at this end have been stubbornly low despite rising inflation risks. The low level of longer dated yields is a particular concern for the Federal Bank because it is a key channel through which tighter monetary policy is meant to transmit to broader financial conditions, particularly in the USA where long rates are a key driver of household and corporate borrowing costs.

Eurozone

- The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Quarter 1, Quarter 2 came in with strong growth of 2% and with Quarter 3 at 2.2%, the Eurozone recovery was then within 0.5% of its pre Covid size. However, the Omicron variant hindered growth in quarter 4 and the outlook for growth for the first two months of 2022 is expected to continue to be very weak.

- A breakdown of the November's inflation figures in the Eurozone shows that the increase in price pressures was not just due to high energy costs and global supply & demand imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. Core goods inflation rose to 2.4%, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the supply & demand of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remained subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation. The Eurozone is set for a prolonged period of inflation, being above the European Central Bank's (ECB) target of 2% and is likely to average 3% in 2022, in line with the ECB's latest projection.

- The ECB joined the Federal Bank by also announcing at its meeting on 16th December 2021 that it will be reducing its QE purchases by half from October 2022. However, the bank will still be providing significant stimulus via QE purchases for over half of next year. The ECB did not change its rate at its 3rd February 2022 meeting but was clearly shocked by the increase in inflation to 5.1% in January. The President of The ECB hinted in a press conference after the meeting that the ECB may accelerate monetary tightening before long and that asset purchases could be reduced more quickly than implied by the previous guidance.

- The Eurozone is entering into a period of political uncertainty**.** Germany has a new coalition government elected in December 2021, Italy needs to elect a new president in January and France have presidential elections in June 2022.

China

- After a concerted effort to get on top of the virus outbreak in Quarter 1 2020, economic recovery was strong in Quarter 2 and then into Quarter 3 and Quarter 4 and has enabled China to recover all of the contraction in Quarter 1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in 2021 after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022.

- China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns which in turn has depressed economic growth. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful. To boost flagging economic growth The Peoples Bank of China cut its key interest rate in December 2021. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

Japan

- In Japan 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged.

- The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon. Inflation went negative in July 2021.

World Growth

- World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently.

- Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022.

- The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries.

- Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

- It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products and vice versa. This is likely to reduce world growth rates from those in prior decades.

Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view. PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps).

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

Over the last two years, the Covid -19 outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

The most recent forecast shows a fast pace of increases in Bank Rate with rises of 0.25% in March, May and November 2022 to end at 1.25% during the forecast period.

A Summary Overview of the Future Path of Bank Rate

- The threat from Omicron variant caused huge national concern at the time of December's MPC meeting but now concern has diminished and almost disappeared.

- The MPC shifted up a gear at the February meeting by raising Bank Rate by another 0.25% and narrowly avoiding making it a 0.50% increase by a 5-4 voting margin.

- The forecast now is to expect the MPC to deliver another 0.25% increase in March as their position appears to be to go for sharp increases to get the job done and dusted.

- The March increase is likely to be followed by an increase to 1.0% in May and then to 1.25% in November.

- The MPC is currently much more heavily focused on combating inflation than on protecting economic growth.

- However, 54% energy cap cost increases from April, together with 1.25% extra employee national insurance contributions, food inflation around 5% and in addition council tax likely to rise in the region of 5%, these increases are going to hit lower income families hard despite some limited assistance from the Chancellor to postpone the full impact of rising energy costs.

- Consumers are estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above increases. But most of those holdings are held by more affluent people whereas poorer people already spend nearly all their income before these increases hit and have few financial reserves.

- The increases are already highly disinflationary and inflation will also be on a gradual path down after April. This may allow the MPC to shift from addressing inflation to protecting economic growth by November and may become debatable as to whether they will deliver another increase then.

- The big issue is whether the current spike in inflation will lead to a second-round effect in terms of labour demanding higher wages and/or lots of people getting higher wages by changing job?

- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may then feel it needs to take more action.

PWLB Rates

- The yield curve has flattened out considerably.

- The markets appear as having already built in nearly all the effects on gilt yields of the likely increases in Bank Rate.

- It is difficult to predict currently what effect the Bank of England sell off of gilts will have on gilt yields once Bank Rate rises to 1%. A passive process of not refinancing maturing debt could begin in March when the 4% 2022 gilt matures as the BOE owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature, would see the holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the "Bank Rate had risen to at least 1%" and, "depending on economic circumstances at the time*."*

- It is possible that Bank Rate will not rise above 1% as the MPC could shift to relying on quantitative tightening (QT) to do the further work of taking steam out of the economy and reducing inflationary pressures but this seems unlikely.

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- Increases in US treasury yields over the next few years could add upside pressure on gilt yields though, more recently, gilts have been much more correlated to movements in bund yields than treasury yields

The balance of risks to the UK Economy

- The overall balance of risks to economic growth in the UK is now to the downside.

Downside Risks to Current Forecasts for Gilt Yields & PWLB Rates

- Mutations of the Coronavirus could render current vaccines ineffective and delays in the development of tweaked vaccines or delays in their administration could result in the NHS being overwhelmed.

- Labour and supply shortages could prove more enduring and disruptive and so depress economic activity.

- The Bank of England acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- The Government acts too quickly to increase taxes and/or cut expenditure to balance the national budget.

- UK / EU trade arrangements could have a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- Geopolitical risks, for example in Ukraine/Russia, Iran, China, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside Risks to Current Forecasts for Gilt Yields & PWLB Rates

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate than we currently expect.

- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

Investment and Borrowing Rates

Investment

- Investment returns are likely to increase in line with the series of bank base rate increases during this accounting period as forecast in this report.

Borrowing

- Borrowing interest rates fell to historically very low rates as a result of the COVID-19 crisis and the quantitative easing operations of the Bank of England. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, with borrowing costs now on the rise and likely to continue rising for the foreseeable future it is now the appropriate time to recommence borrowing externally to finance matured debt and the capital programme. Longer-term borrowing should also be undertaken for the purpose of certainty and avoidance of interest rate risk.

- However, there will be a cost of carry, (higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will incur a revenue cost.

- The capital expenditure plans previously detailed, highlight the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Balance Sheet Projections

To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2022/23 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2022/23 to 2026/27. The Authority will continue the use of reserves and spare cash balances only when appropriate to finance capital expenditure (internal borrowing) as an alternative to borrowing externally.

As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of External Borrowing required in future years.

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£000	**£000**	**£000**	**£000**	**£000**
Capital Financing Requirement	216,183	247,490	263,384	265,636	269,843
Less External Borrowing	(176,411)	(212,715)	(234,555)	(243,387)	(254,192)
Internal Borrowing	**39,772**	**34,775**	**28,829**	**22,249**	**15,651**
Internal borrowing as a % of Capital Financing Requirement	**18%**	**14%**	**11%**	**8%**	**6%**
Reserve/Capital Grant Balances/Provisions	67,711	63,516	61,285	59,193	59,193
Capital Receipts	3,694	3,694	3,694	3,694	3,994

Total Cash Backed Reserves and Provisions	**71,405**	**67,210**	**64,979**	**62,887**	**63,187**
Less External Investments Target	30,000	30,000	30,000	30,000	30,000
Balance Available for Internal Borrowing	**41,405**	**37,210**	**34,979**	**32,887**	**33,187**
Working Capital Surplus	11,584	11,584	11,584	11,584	13,041
Projected External Investments	31,633	32,435	36,150	40,638	47,536
Total Projected Investments Balance	**43,217**	**44,019**	**47,734**	**52,222**	**60,577**

Borrowing Strategy

The Council's borrowing strategy in recent years has been to maintain an under-borrowed position. This means that the capital borrowing need the Capital Financing Requirement (CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This policy has been based on the high levels of reserves held by the Council. This strategy was considered prudent as investment returns are still relatively low and counterparty risk is still an issue that needs to be considered. However, with rates now rising as the Bank of England attempts to curb the rise in inflation and the possibility of the Council having to borrow £138m of new loans over the next 5 years it is now considered prudent to borrow externally, initially to finance maturing loans and to avoid interest rate risk in future years.

The Council's Final Capital Proposals 2022/23 to 2026/27 forecast borrowing (supported and unsupported borrowing) in the period are set out in the table below totalling £105.403m (£69.384m of which is required for HRA). The Council is also projecting to use £5.120m of Capital receipts between 2022/23 and 2026/27.

Scheme	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
	£000	£000	£000	£000	**£000**	£000
General Fund						
General Capital Funding Supported Borrowing	3,451	4,141	4,141	3,451	3,451	18,635
Unsupported Borrowing						
Sustainable Community Learning Programme	3,324	1,315	2,983	0	0	7,622
City Deal	273	4,373	2,289	0	0	6,935
Vehicles	963	364	0	0	0	1,327
Buttrills Changing Room	0	500	1,000	0	0	1,500
Total General Fund	**8,011**	**10,693**	**10,413**	**3,451**	**3,451**	**36,019**
Housing Revenue Account						
Housing Revenue Account	16,056	26,681	12,418	6,059	8,170	69,384
Total Capital Programme Borrowing	**24,067**	**37,374**	**22,831**	**9,510**	**11,621**	**105,403**

In addition, as part of the Initial Revenue Proposals 2022/23 the Council is projecting a reduction in its reserves, capital grant balances and provisions of 85% or £49m from 2021/22 levels by 2026/27.

Another factor influencing the Council's borrowing strategy is the high level of maturities on the Council's existing external debt over the coming years which have been calculated to be £39m between 2022/23 and 2026/27.

Taking these factors into account and the Council's requirement to hold approximately £30m in investment balances, the Council's additional external borrowing requirement is £142m as set out in the borrowing requirement table below for the period 2022/23 to 2026/27. This will need to be managed carefully to minimise the interest and liquidity risk to the Council.

Borrowing Requirement

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

	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
	£000	£000	£000	£000	**£000**	£000
New Borrowing	24,000	37,000	22,000	9,000	11,000	103,000
Replacement Borrowing	8,000	9,000	7,000	6,000	9,000	39,000
Total External Borrowing	32,000	46,000	29,000	15,000	20,000	142,000

The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will need to keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Finance/Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it is felt that there is a significant risk of a sharp fall in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it is felt that there is a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions in respect of new external borrowing will be reported to the Cabinet.

Current Portfolio Position

The overall treasury management portfolios as at 31 March and 31st December 2021 are shown below for both borrowing and investments.

Treasury Portfolio - Investments	31.03.2021	31.03.2021	31.12.2021	31.12.2021
	£000	**% Return**	**£000**	**% Return**
Local Authorities	68,750	0.5889	45,500	0.0984
Debt Management Account Deposit Facility	0	0	8,650	0.0317
CCLA Money Market Funds	9,100	0.0462	7,900	0.0347
Federated Hermes Money Market Fund	9,550	0.0220	100	0.0112
Lloyds Instant Access Account	4,760	0.0100	4,810	0.0100
Lloyds Monthly Bonus Account		0.0217		0.0100
Santander Corporate Notice Accounts	0	0	2,250	0.1444
Total Investments	**92,160**		**69,210**	

Treasury Portfolio - Borrowing	31.03.2021	31.03.2021	31.12.2021	31.12.2021
	£000	**% Return**	**£000**	**% Return**
Borrowing				
Public Works Loan Board	144,417	4.6992	138,502	4.6391
LOBOS	6,000	5.3220	4,000	4.500
WG Loans	1,050	0	1,050	0
Salix Loans	1,168	0	1,168	0
Temporary Loans	100	0.056	100	0.0924
Total External Borrowing	**152,735**		**144,820**	
Net Borrowing	**60,575**		**75,610**	

Gross Debt and the Capital Financing Requirement - Prudential Indicator No. 3

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000

External Debt as at 1st April	153,910	152,735	152,816	176,411	212,715
Expected Change In Debt	(2,895)	(7,919)	(8,405)	(9,696)	(7,160)
Other Long Term Liabilities	0	0	0	0	0
Expected Change In Other Long Term Liabilities	0	0	0	0	0
New Advances	1,720	0	24,000	37,000	22,000
Replacement Borrowing	0	8,000	8,000	9,000	7,000
Gross Debt 31st March	**152,735**	**152,816**	**176,411**	**212,715**	**234,555**
The Capital Financing Requirement	(198,763)	(197,620)	(216,183)	(247,490)	(263,384)
Internal Borrowing	**46,028**	**44,804**	**39,772**	**34,775**	**28,829**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross 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 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account the final proposals for capital and revenue.

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;
- from the Municipal Bond Agency
- stock issues;
- short – term borrowing from any source;
- other credit arrangements; and
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

LOBO (Lender Option Borrower's Option)

The Council holds a £4M of LOBO (Lender Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan. The

Council will take the option to repay this LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £4m.

Municipal Borrowing Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Council may make use of this new source of borrowing as and when appropriate. Any intention to borrow will be authorised by the Section 151 Officer and reported to Cabinet for approval prior to any action being taken.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary – Prudential Indicator No. 4

This is the proposed limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. 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 Council's plans for capital expenditure, estimates of capital financing requirement and the estimate of cash flow 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.

Operational Boundary	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
Debt	212,948	230,785	264,384	277,743
Other Long Term Liabilities	0	0	0	0
Total	**212,948**	**230,785**	**264,384**	**277,743**

Other long term liabilities will now be included from 2023/24 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

The Authorised Limit for External Debt – Prudential Indicator No. 5

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is the affordable borrowing limit determined in compliance with section 3 (1) of the Local Government Act 2003. 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 below 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).

Authorised Limit	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000
Debt	223,352	241,693	274,792	288,151
Other Long Term Liabilities	0	0	0	0
Total	**223,352**	**241,693**	**274,792**	**288,151**

Other long term liabilities will be included from 2023/24 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

Affordability Prudential Indicators

The objective of the affordability indicator is to assess the affordability of the Council's investment plans by considering the impact on the council tax and for the 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:

Ratio of Relevant Financing Costs to Net Revenue Stream – Prudential Indicator No. 6

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.

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
HRA (Rents)	22.40	21.28	22.03	26.53	31.36
Non HRA (Council tax)	3.27	3.07	3.09	3.22	3.41

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.

Upper Limits on Fixed Interest Rate and Variable Interest Rate Exposure – Prudential Indicator No. 7

Fixed Interest Rate Exposure	2021/22 Probable Outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Net Principal Fixed Rate Borrowing	148,716	172,311	208,615	230,455

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	2021/22 Probable outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 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.

Upper Limit for Principal Sums Invested for Longer Than 364 Days - Prudential Indicator No. 8

	2021/22 Probable Outturn £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Upper limit principal sums invested for over 364 days (per maturity date)	10,000	10,000	10,000	10,000

Fixed Rate Borrowing Maturity Limit for External Debt - Prudential Indicator No. 9

Amount of Projected Borrowing that is Fixed Rate Maturing in Each Period as a Percentage of Total Projected Borrowing that is Fixed Rate for 2021/22	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%

Housing Revenue Account Prudential Indicators

Welsh Government have been working with the WLGA, a group of local authority representatives and Savills to develop a set of prudential borrowing indicators in the absence of a borrowing cap and with increasing funding demands placed on the HRA business plan. These measures have not yet been agreed but the aim is to include these in some way in business plan submissions in future years. At present the Council reports to WG with the following prudential indicators:

- Loan to Value
- Debt: Turnover
- Debt: Net Revenue
- Interest Cover

Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Having considered the advice of the Council's treasury advisors, 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.

Debt Rescheduling/Repayment

The Public Works Loan Board allows authorities to prematurely repay loans. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;

- Helping to fulfil the Treasury Strategy; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as in the current climate short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be approved by the Section 151 Officer under delegated powers as set out in the Council’s Constitution (Officer Delegations) and reported to Cabinet as part of the agreed monitoring procedure at the earliest meeting following its action.

Management of Housing Revenue Account 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.

Removal of HRA Borrowing Cap

On 29th October 2018 the Welsh Government confirmed that the Housing Revenue Account (HRA) was abolished with immediate effect therefore the “Final Limit of Indebtedness” cap of £103.723m reported in previous strategies has been removed.

As a result, Local Authorities with an HRA are no longer constrained by government controls over borrowing for house building and are able to borrow against their expected rental income, in line with the Prudential Code

LIBOR Transition

The publication of official LIBOR figures (and related LIBID calculations) ceased at the close of 2021. The Council used LIBID rates when calculating the rate of interest to be charged on internal borrowing. From 2021/22 the Council will now use the SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. SONIA is the Working Group on Sterling Risk Free Reference Rates’ preferred benchmark for the transition to sterling risk-free rates from Libor. To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3 August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source.

Policy on Apportioning Interest to the HRA

As part of the HRAS Buyout process the Council has reviewed its arrangements for dealing with the pooling of debt. The current approach is that the Council 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.

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.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods. Should the Council decide to undertake this option then this will be reported to Cabinet at the earliest opportunity and will be within the limits set out in prudential indicator 8.

As set out in the Council's Balance Sheet projections, the Council, following discussions with Link Asset Management Ltd. will seek to maintain a minimum £30m investment balance in addition to any working capital surplus during the period. The accuracy of these estimates will again be impacted by the use of reserves as planned and the delivery of the capital programme as profiled.

In 2022/23 the Council will place investments with the Debt Management Account Deposit Facility (DMADF) of the Bank of England, UK Treasury Bills (both are guaranteed by the UK Government), UK Local Authorities (including Police and Fire Authorities), Money Market Funds, Instant Access Accounts held with Lloyds Bank PLC and Corporate Notice Account held with Santander Bank PLC. The Council may also consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

The Council will continually review the financial stability of all parties with whom it places investments. Although not guaranteed by the UK Government if a Local Authority with whom the Council has placed an investment were to default on repayment, the Council would have recourse under the Local Government Act 2003 to collect any outstanding sums.

The Treasury Management section will in 2022/23 retain the maximum principal investment at £5m but extend the maximum period of investment to 24 months with Local Authorities. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports. The Maximum principal that may be invested in MMFs, Lloyds Instant Access and Monthly Bonus Accounts and Santander Notice Accounts will be £10m.

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

Investment Returns Expectations

Bank rate has risen from 0.10% to 0.50% in February 2022 and is forecast to increase to 1.25% by March 2025. Investment earnings have elevated recently but are still being held back by the excess liquidity in the economy especially in the Local Authority Market.

Negative Investment Rates

The Bank of England is battling to control inflation which is expected to hit 7.25% over three times its target rate of 2%. The UK Economy is entering a period of monetary tightening and three interest rate rises are forecast by March 2025. In the circumstances negative interest rates will not feature during this period under review.

Management of Risk

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 Council's Treasury Management Strategy.

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

The Council's Investment Policy currently for 2022/2023 has regard to the following: -

- The Welsh Government's Guidance on Local Government Investments ("the Guidance") issued in April 2010;

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA Treasury Management Code");

- The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W 319) (as amended); and

- CIPFA Treasury Management Guidance Notes 2018.

The Council will have regard to the new Revised CIPFA Treasury Management and Prudential Code published in December 2021 from 2023/24.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions.

The Welsh Government Guidance and the CIPFA Code of Practice place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

Creditworthiness

Credit Rating Criteria

The Council uses credit ratings (long and short term) from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. This allows the Council to generate a list of highly creditworthy counterparties and enables diversification and thus avoidance of concentration risk. The lowest available credit rating will be used to determine credit quality. 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.

The categories and definitions 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

Other Information

Additional requirements under the Code require the Council to supplement credit rating information therefore credit ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its treasury advisers to maintain a monitor on market pricing such as **"**credit default swaps**"** and overlay that information on top of the credit ratings.

Other Information Sources

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Categories of Investments

Investments fall into 1 of 2 categories, specified and non-specified investments.

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 long term credit rating of A- or higher that are domiciled in the UK or a Non UK 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.

Brexit

The UK's sovereign rating is AA- long term. Having seen an orderly Brexit on the 31st December 2020 following a trade deal on the 24th December 2020 with European Union (EU), the Council will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. This approach will not limit the number of UK counterparties available to the Council. To ensure the Council's credit risk is not increased outside the UK, the sovereign rating requirement for investments to Non UK countries will also be maintained at a minimum of AA-.

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 treasury advisers and the views of the Section 151 Officer.

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 Fire & Police Authorities	£5M per organisation.	£5M per organisation
Money Market Funds (AAA)	£10M per organisation	Not Required
UK and Foreign Financial Institutions (A-)	£10M per organisation	£5M per organisation

UK Call Bank Accounts in UK Banks (F1/P-1/A-1)	£10M per organisation	Not required

The Council does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2022/23. 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.

The Council's investments for the period to 31st December 2021 are set out below.

Investment Counterparty	Opening Balance 01/04/2021	Invested	Repaid	Closing Balance 31/12/2021
	£000	£000	£000	£000
Local Authorities including Fire & Police	68,750	56,500	(79,750)	45,500
Debt Management Account Deposit Facility (DMADF)	0	151,250	(142,600)	8,650
Treasury Bills	0	4,000	(4,000)	0
CCLA Money Market Fund	9,100	2,900	(4,100)	7,900
Federated Hermes Money Market Fund	9,550	37,150	(46,600)	100
Lloyds Monthly Bonus Account	4,550	9,700	(10,400)	3,850
Lloyds Instant Access Account	210	47,100	(46,350)	960
Santander Corporate Notice Accounts	0	2,250	0	2,250
Total	**92,160**	**310,850**	**(333,800)**	**69,210**

Interest, at an average rate of 0.0984% and amounting to £222,815.95 (including accrued interest from 2020/21) has been received from maturing Local, Fire & Police Authorities and Debt Management Deposit Facility investments for the first 9 months of 2021/22.

The average rate of return on the CCLA Money Market Fund was 0.0347% and on the Federated Hermes Money Market Fund 0.0112% with yields of £2,456.04 & £353.04 respectively.

The Lloyds Instant Accounts yielded a return of £501.40 at a rate of 0.01%. One account yields a bonus payment for funds deposited for 1 month. Bonus Interest paid during the period was an additional £155.19.

The Council made one investment in Treasury Bills which yielded a return of £797.65 at a rate of 0.3992%.

No interest has been received on the Santander Corporate Notice Accounts at the time of writing this report however interest is accruing on a daily basis on the funds invested.

The above analysis shows that 78.24% of the Council’s investments were placed with local, fire and police authorities and the Debt Management Office as at 31st December 2021 compared to 81.02% as at 31st December 2020.The average interest rate return from these investments has fallen from 0.4833% in 2020/21 to 0.0984% in the first 9 months of 2021/22. The bank base rate was 0.10% throughout the vast majority the period under review with December 2021 seeing the first increase by the Bank of England to 0.25%.

Funds placed with the CCLA & Federated Hermes Money Market Funds account for 11.56% and short term deposits with Lloyds Bank PLC 6.95%. The remainder 3.25%, represented the funds placed in Santander Corporate Notice Accounts.

Whilst the Council has no specific exposure, the Section 151 Officer has continued to follow closely the emerging picture in relation to a number of Council’s financial positions and continues temporarily to suspend the placement of investments with certain councils. The Section 151 Officer considers that having taken the advice of Link Asset Management 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.

Investment Performance

The Council has its’s investment portfolio appraised every month by Link Asset Management, the Council’s appointed treasury advisors. As well as providing the average yield on investments for the month their report also focuses on portfolio composition and any investment risk linked to that portfolio. A monthly economic summary is also provided.

Treasury Bills

The Authority commenced the placement of funds with Treasury Bills in November 2019 after engaging the services of King & Shaxson Ltd.

King & Shaxson Ltd provide a tailor made service for local authorities together with the custodian account required to utilise this investment tool. They currently are the only provider of this service in the market at this time.

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. Treasury Bills may also be purchased on the secondary market.

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 fall into this exclusion.

Money Market Funds

The change in legislation in 2018/19 by the Welsh Government now permits the Council to consider the use of Money Market Funds when placing very short term investments as an alternative to the Debt Management Account Deposit Facility (DMADF).

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.

The maximum funds to be deposited in an individual MMF will be £10m.

The Council continued to utilise CCLA Investment Management Ltd and Federated Hermes UK to operate Money Market Funds on behalf of the Council. Both are domiciled in the UK.

Lloyds Instant Access Accounts

The Council continued to utilise two Lloyds Instant Accounts during 2021/22, these accounts offer a very low rate of return but have the benefit of instant availability funds if required.

Santander Corporate Notice Accounts

On the 8th, December 2021 the Council opened three Corporate Notice Accounts (35,95 and 180 day) with Santander Bank PLC. Investments yield a more favourable rate of interest on the initial deposit and then a lower yield when the appropriate period of notice is requested. The maximum total investment that can be placed in these accounts at any one time is £10m.

Ethical Investing

Ethical investing is a topic of increasing interest to members, and one that is also being raised through officers. 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. There is however some evidence already in place with local authority investing, including the incorporation of

Environmental, Social and Governance (ESG) ESG metrics into credit rating agency assessments.

Climate Change

The Welsh Government (WG) investment guidance published on the 22nd November 2019 requires the following:-

“Local authorities should disclose to what extent investment decisions consider long-term climate risks to support a low carbon economy”.

The Authority currently invests the majority of funds with Local Authorities (including the Police & Fire Services) and the UK Government and borrows only from the PWLB therefore the above disclosure at present is not relevant from a treasury management point of view.

External Service Providers

Treasury Management Advisors

The Council appointed Link Asset Management as their external treasury management advisors from September 2018. 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 Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

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

External Fund Managers

External cash or fund managers may be appointed by the Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are also required to comply with Guidance on Local Government Investments issued by Welsh Government. The investment criteria imposed on the external managers will be included in the Investment Management Agreement**.** The Council at present do not engage external fund managers.

Treasury Management Training

It is a requirement of the CIPFA Code of Practice that the Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Head of Finance / Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff. The Head of Finance / Section 151 Officer will ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities. Those charged with governance must recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Council's treasury advisor Link Asset Management provides training for Members at least annually, the next training course is to take place on March 1st, 2022. The training needs of treasury management officers are periodically reviewed and 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. Link Asset Management also provide regular online training seminars to ensure that changes to the Codes of Practice are implanted and adhered to.

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.

Cardiff Capital Region City Deal

The Vale of Glamorgan Council is a participant in the Cardiff Capital Region City Deal (CCR) which has been established between the UK Government, the Welsh Government and 10 local authorities in South East Wales. The agreement with the UK and Welsh Governments' provides £1.2 billion of which £734m is allocated to the Metro.

CCRD has four key objectives - 5% Gross Value Added growth, 25,000 high-order jobs, £4 billion leverage of public and private sector investment and demonstration of economic inclusion. To date, approved projects have the potential of achieving up to £1.5bn of leverage. Projects now coming to the fore such as Strength in Places, bring new public and private leverage through sources such as the UKRI Strength in Places Fund. CCR will continue to leverage both public and private funds and will build the partnerships and R&D intensity to continue generating successively high levels of private leverage.

The CCR has the following projects with approved Full Business Cases (FBC) and in delivery. CSC Foundry, Metro Plus, Outline Business Case-FBC work on Metro Central, Homes for all the Region, the Local Wealth Building Challenge Fund, the Graduate Scheme and Plasma Technology project. CCR also have a number of projects at OBC stage moving towards FBC stages: Pharma Data Technology, Outdoor Adventure Project, Strategic Premises Fund, Life Sciences Park Project, the SME Finance Fund (Housing), the SIPF Front of House Project and the Innovation Investment Fund. In addition to this, there are a number of other projects at early stages of Strategic Outline Case – examples of which include a Full Fibre to the Premise Project and battery technology development Project AMP, as well as cluster development projects for Fintech, Creative Industries and Cyber Wales – the latter for which are in the Strength in Places Fund final business plan preparation at this time. All of these projects and wider programmes of activity are likely to be deliberated on and where approved by Regional Cabinet – in delivery over the five year period.

At its Cabinet meeting on 31st January 2022 the Medium Term Financial Plan for 2022/23 which constitutes year 2 of the five year Strategic Business Plan approved in December 2020.

1. Build Back Better – playing our part in economic recovery and building resilience;
2. Becoming a City Region – strengthening regional economic governance;
3. Scaling-up and delivering the City Deal ‘peak’ Wider Investment Fund pipeline and programme;
4. Making the case for Levelling-up CCR;
5. Developing the plan for industrial-scale clusters and innovation-led growth.

Key priorities highlighted for 2022/23 are set out below;

- creating innovation strategies and action plans for our primary clusters;
- • implementing the innovation investment fund;
- • facilitating commitment to 3 significant £1m plus challenges;
- • delivering Venture business propositions for 2 new skills opportunities;
- • investing in 2 new strategic sites and premises opportunities;
- • making an investment in a high value energy infrastructure proposition;
- • crystalising commitment to a Northern Valleys Transformation Fund;
- • implementing the Housing Viability and metro plus projects;
- • implementing first stages of the CJC and developing a full transition plan;
- • enhancing tools, technology, operating processes, risk management and reporting

The total expenditure for the CCR 2022/23 Annual Business Plan is £46.281 Million. It is proposed that this level of expenditure is funded as follows:

- Draw down of HM Treasury Revenue Grant: £6.469 Million
- Draw down of HM Treasury Capital Grant: 36.600Million
- Draw down of Council Contributions: £3.2118 Million (The Vale of Glamorgan's Contribution in 2022/23 is £273k).

The Vale of Glamorgan's share of the estimated total costs (8.5%) is projected to be in the order of £17.9m and will be funded by unsupported borrowing with a 20 year repayment period.

Further detail can be found at Cardiff Capital Region City Deal

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 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.

The first Project Bank Account was set up during 2019/20 with Lloyds Bank PLC to be used as a vehicle to make payments under the design and build contracts for 21st Century Schools. and an additional four accounts with Lloyds Bank PLC, Royal Bank of Scotland PLC & Santander UK PLC were added during in 2020/21 as the various 21st Century School schemes progress. There were no new additions during 2021/22.

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.

Management Practices for Non-Treasury Investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans, supporting service outcomes, investments in subsidiaries and investment property portfolios.

The Council will ensure that all the organisation's investments of this nature are covered in the capital strategy, investment strategy or equivalent and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non treasury investments.

A schedule of the Council's existing non treasury investments (currently limited to the investment in the Big Fresh Catering Company) is set out below;

Investment in Subsidary - Big Fresh Catering Company

On 1st January 2020, the Council set up a Local Authority Trading Company to deliver Catering services called the Big Fresh Catering Company. The Council owns 100% of the company shares. In accordance with WG Investment Guidance this will be classified as a Non Treasury Investment.

IFRS9 – Local Authority Override

The Welsh Government issued draft regulations on 14th November 2019 for consultation and feedback by 31st December 2019, to introduce a statutory over-ride from 1 April 2020 for a four year period until 31 March 2023 following the introduction of IFRS 9, over the requirement for any unrealised capital gains or losses arising from investment in marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31 March 2023. This will enable councils to initiate an orderly withdrawal of funds if required.

IFRS 16 Leasing

The CIPFA code currently sets out that from 1st April 2022 IFRS 16, which deals with the way the Council accounts for its lease arrangements, will be introduced. The revised accounting code requires significant changes for how the Council accounts for contracts that convey the right of use of an asset for a period of time. Whereas the Council currently accounts for all its lessee lease arrangements through revenue income and expenditure, under the new arrangement the Council will be required to calculate a right of use asset and a corresponding liability which will be included on its balance sheet. The liability will increase the Council's CFR and the Council will need to charge MRP which will in practice be equivalent to the principal of the lease. Despite the extensive accounting requirements and disclosures, this change of accounting policy will not impact the bottom line of the accounts. It will however have an impact on the Prudential indicators and MRP estimates included in this Strategy. CIPFA is currently out to consultation on a proposal that includes delaying leasing for 1 year. In the context of this proposed delay the Council continues to undertake an assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements is currently being undertaken and it is intended that revised indicators that incorporate these estimates are reported as part of the Treasury Management Strategy for 2022/23 will be brought if required and if not will be incorporated into the strategy for 2023/24.

Appendix 2

Treasury Management Policy

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

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 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-AC006	Capital Accountant
W-RM-AC014	Corporate Accountant
W-RM-AC003	Finance 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 years).

A revised Investment Strategy may be prepared if at any time it is considered appropriate.

A mid-year review during the current year.

As soon as possible after the end of the financial year - report on the outturn for the previous 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 budget 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 2017 Treasury Management Code has not changed. However, the revised 2021 Code of Practice implies a major extension of the functions of this role, especially in respect of non-financial investments. These include the following:

- 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.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- 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.