Agenda Item: 11 (d)

Meeting of:	**Cabinet**
Date of Meeting:	**Thursday, 06 March 2025**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Treasury Management and Investment Strategy 2025/26 and Update for 2024/25
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2024 and to submit for consideration the proposed 2025/26 Treasury Management and Investment Strategy and Treasury Management Policy
Report Owner:	Report of the Director of Corporate Resources
Responsible Officer:	Matt Bowmer Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	None
Policy Framework:	This report needs to be referred to Council for approval.

Executive Summary:

- This interim report provides an update on the Council's Treasury Management operations for the period 1st April to 31st December 2024 with updated prudential and treasury indicators set out at Appendix 1 including estimates for other long term liabilities as part of the IFRS16 leasing standard.
- The report also outlines the proposed 2025/26 Treasury Management, Annual Minimum Revenue Provision and Investment Strategy set out in Appendix 2.
- All activities undertaken in 2024/25 were in accordance with the Council's approved strategy on Treasury Management.

Technical Changes

- IFRS16 which is the accounting standard that brings the assets and liabilities associated with the Council's lease assets on to the balance sheet has been incorporated into the revised performance indicators for 2024/25 and the Treasury Management, Minimum Revenue Provision and Investment Strategy 2025/26 with effect from April 2024. The lease liability on transition (1/04/2024) has been calculated at £5.843M.

Minimum Revenue Provision Policy

- The Council has reviewed the current Minimum Revenue Provision (MRP) policy set out in the 2024/25 Strategy. MRP is the method Local Authorities use to charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by debt. A report was presented to Governance and Audit Committee on 6th January 2025 amending the Asset Life Method when calculating MRP for supported General Fund debt, from 40 to 50 years. This requires approval of Full Council before it can be introduced.

Borrowing Strategy and Position

- Total external borrowing as of the 31st of December 2024 was £153.852M at an average rate of 4.26%.
- New external borrowing totalling £20.000M was borrowed from the Public Works Loan Board (PWLB) during the first 9 months of 2024/25, £18.000M at an average rate of rate of 4.15% which utilised the special project rate for Housing Revenue Account schemes and the remaining £2.000m at a 4.75% certainty rate.
- An additional £2M new borrowing was borrowed from a Local Authority at a rate of 4.65% for 3 years.

Investment Strategy and Position

- The Council invested with the Debt Management Deposit Facility, Local Authorities, Money Market Funds and a Lloyds Bank Call Account. Total investments as of the 31st of December 2024 stood at £15.915M at an average rate of 5.09% over the nine-month period.

Treasury Management Strategy 2025/26

- The Council must ensure that the Prudential Code is complied with, which has been developed and written by CIPFA as a professional code of practice, last published in December 2021. To demonstrate the that the Council has fulfilled these objectives, when preparing the annual strategy, the Code sets out a list of Prudential and Treasury indicators that should be calculated together with other factors that must be considered. These indicators are in the body of the Strategy out at Appendix 2.
- The Council also has a legal requirement to comply with the Welsh Government Guidance on Investments and has taken this guidance into consideration when developing the Strategy.
- New Borrowing in the period to 2025/26 to 2029/30 is expected to be £227.512M for new Capital Expenditure, and a further £49.000M of borrowing to replace maturing loans and reflect the Council's reducing ability to internally borrow over the period.
- Capital expenditure when financed by long term debt incurs two elements of cost, interest 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 the calculation is detailed in the report.
- The Treasury Management Policy Statement is attached at Appendix 3.
- This is the draft Treasury Management Strategy, consultation on the Capital Programme Proposals has been undertaken and revisions were made to the Programme resulting from the final Welsh government Settlement necessitating changes to the final Treasury Management Strategy presented in this report.

Recommendations

1. That Cabinet notes the Treasury Management interim report for the period 1st April to 31st December 2024.
2. That Cabinet recommend that Council approve the revised policy for making Minimum Revenue Provision from 2024/25 onwards.
3. The Section 151 Officer be given delegated authority to amend the prudential indicators for 2024/25 in respect of other long term liabilities to enable the timely implementation of IFRS16.
4. That Cabinet recommend that Council approve the proposed 2025/26 Treasury Management and Investment Strategy including the following specific resolutions (detailed in Appendix 2).
    - The Authorised Limit for External Debt be set at £265.394M for 2024/25, £296.207M for 2025/26, £331.078M for 2026/27 and £381.753M for 2027/28.
    - The Operational Boundary for External Debt be set at £244.170M for 2024/25, £263.914M for 2025/26, £297.677M for 2026/27 and £347.407M for 2027/28.
    - 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 of £0M for 2024/25, £10M in 2025/26, £10M in 2026/27 and £10M in 2027/28 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 be set as shown below and further detailed in appendix 1.

    Table 1 – Upper and lower Limits for fixed rate borrowing

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

    - Any breaches of the Prudential Indicators will be reported through to the next meeting of Cabinet, with the exception of the Authorised Limit for External Debt which would require prior Council approval.
5. That Cabinet approves the Prudential Indicators set out in Appendix 1 and 2.

6. Cabinet recommends that Council approve the Treasury Management Policy Statement set out in Appendix 3.
7. That use of the urgent decision procedure as set out in Section 15.14 of the Council's Constitution be approved in order for the Treasury Management and Investment Strategy 2025/26 and Update for 2024/25 to be considered by Full Council on 10th March 2025.

Reasons for Recommendations

1. To present the Treasury Management Interim Report.
2. To agree the basis of the Minimum Revenue Provision calculation for 2024/25 onwards.
3. To enable the timely implementation of IRFS16.
4. In order for the Treasury Management and Annual Investment Strategy as prepared is approved as required by the Local Government Act 2003.
5. In order for the Treasury Management and Annual Investment Strategy as prepared is approved as required by the Local Government Act 2003.
6. In order for the Treasury Management Policy Statement to be approved.
7. To allow the Treasury Management and Investment Strategy 2025/26 and Update for 2024/25 to be referred to Full Council on 10th March 2025 for consideration and approval.

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. A key function 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 with minimum risk counterparties in various financial 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 to do so, 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 The Welsh Government provides the Council with a General Capital Funding Grant, and the Council is also advised of a level of borrowing that Welsh Government is prepared to fund via the Revenue Support Grant Settlement (supported borrowing). If the Council wishes to borrow more than this level to increase its capital expenditure, then it can. However, it will either fund the additional costs of borrowing through revenue savings in other services or increases in Council Tax.

1.5 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.

1.6 The key objectives of the fully revised Prudential Code are to ensure that:

- The capital investment plans of local authorities are affordable;
- All external borrowing and other long-term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good practice.

1.7 The key objectives of the revised Treasury Management Code are to meet the need of Local Authorities to provide a clear definition of the treasury activities. The update reflects the changes in an increasingly complex environment and regulations, increasing the need for documenting and retaining knowledge and skills, as well as developing areas such as environmental, social and governance considerations.

2. Key Issues for Consideration

Treasury Management Reporting

2.1 On 20th December 2021 CIPFA published its revised edition of The Prudential Code together with the revised Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority formally adopted this new legislation at Full Council on 5th December 2022 Minute No

500. Together with the Welsh Government revised guidance on Local Government Investments (April 2010), the Authority is required 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 Governance & Audit 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
- Investment Strategy

Mid-Year Treasury Management Report

2.3 A progress report which updates 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 In addition, the 2021 revised Treasury Management Code requires the Council to implement the following all of which are addressed in either the Treasury Management Strategy, (Appendix 2) Treasury Management Policy Statement (Appendix 3) or the Capital Strategy (a separate report on the same agenda as this report.

- Calculate a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.
- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The s151 Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from

the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority’s integrated revenue, capital, and balance sheet monitoring.

- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.
- Address Environmental, social and governance (ESG) issues within the Authority’s treasury management policies and practices.

2.6 The proposed Treasury Management and Investment Strategy for 2025/26, is attached at Appendix 2. 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 several statutory Prudential Indicators that may be used to support and record local decision making.

Economics Updates

2.7 Economic updates and the interest rates forecast in relation to the third quarter are detailed within the Treasury Management Strategy in Appendix 2 of this report.

Interim Report To 31st December 2024

2.8 All Treasury Management activities for the period 1st April to 31st December 2024 were in accordance with the Council’s approved strategy on Treasury Management. The following table sets out the monies borrowed and repaid during the period.

Table 2 – Actual External Loan Debt as at 31st December 2024

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2024			**31/12/2024**
	£M	**£M**	**£M**	**£M**
PWLB	137.076	20.000	-7.122	149.954
Local Authorities	0.000	2.000	0.000	2.000
Longer Term Loan (LOBO)	4.000	0.000	-4.000	0.000
WG Government Loans	1.050	0.000	0.000	1.050
Salix Loans	1.186	0.000	-0.338	0.848
Total	**143.312**	**22.000**	**-11.460**	**153.852**

2.9 PWLB 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 to 31st December 2024 from 4.38% to 4.25%.

2.10 New external borrowing from the PWLB totalling £20.000m was undertaken during the first 9 months of 2024/25, £18.000M at an average rate of rate of 4.15% which utilised the special project rate for Housing Revenue Account schemes and the remaining £2.000M at a 4.75% certainty rate.

2.11 An additional £2.000M was borrowed from a Local Authority at a rate of 4.65% over 3 years.

2.12 Maturing Loans with the PWLB totalled £7.122M and were repaid at a rate of 4.84%.

2.13 Other longer-term loans represent those non PWLB loans that are repayable at least 1 year or more from the date they are advanced. This debt was represented by a single LOBO loan of £4.000M. This debt, borrowed from an external bank was repaid in August 2024 when the opportunity arose to repay without penalty.

2.14 Welsh Government loans are made up of two interest free loans advanced by Welsh Government, a Concessionary Loan for £0.500 and a Town Centre Loan for £0.550M.

2.15 Two loans are included which were advanced by Salix for £1.134M and £0.034M respectively. These have been borrowed to fund energy management schemes, primarily street lighting. Principal repayments of £0.338M have been made on these loans during 2024/25. Both loans are interest free.

2.16 The Council's investments for the period to 31st December 2024 are set out in the following table.

Table 3 – Actual Investment Balance as of 31st December 2024

Investment Counterparty	Opening Balance	Invested	Repaid	Closing Balance
	01/04/2024			31/12/2024
	£M	£M	£M	£M
Local Authorities	27.500	16.000	(41.500)	2.000
Debt Management Office (DMO)	0.000	405.275	(405.275)	0.000
Federated Hermes MMF	6.625	41.225	(40.450)	7.400
CCLA MMF	0.050	39.200	(34.400)	4.850

Lloyds Deposit Account	0.020	11.720	(10.075)	1.665
Total	**34.195**	**513.420**	**(531.700)**	**15.915**

2.17 Interest at an average rate of 5.34% and with an estimated yield of £0.332M (including accrued interest from 2023/24) has been received from maturing Local Authority Investments for the first 9 months of 2024/25.

2.18 Interest at an average rate of 4.99% and with an estimated yield of £0.171M (including accrued interest from 2023/24) has been received from maturing Debt Management Deposit Facility investments for the first 9 months of 2024/25.

2.19 The average rate of return on the CCLA Money Market Fund was 5.04% and on the Federated Hermes Money Market Fund 5.05% with estimated yields of £0.287M and £0.339M respectively.

2.20 The estimated yield on the Lloyds Instant Access Account was £0.040M at an average rate of 4.88%. The rate applicable to the account was amended 3 times during the period under review and is currently 4.62%.

2.21 So far in 2024/25 the Council has not invested any funds in Treasury Bills as yields have been unfavourably low and there have been better investment opportunities available on the market.

Proposed Strategy 2025/26

Balance Sheet Projections

2.22 To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2025/26 balance sheet projections have been prepared. These projections reflect the Draft Capital Proposals for the period 2025/26 to 2029/30.

2.23 On 31st March 2024 Capital Financing Requirement was £198.792M of which 28% or £55.480M was internally borrowed. The Council had external borrowing totalling of £143.312M.

2.24 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.

2.25 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.

Table 4 – Projected Investment Balance

	2025/26	2026/27	2027/28	2028/29	2029/30
	£M	£M	£M	£M	£M
Capital Financing Requirement	241.101	271.858	322.798	363.606	403.385
Less Projected External Loans	(205.595)	(242.834)	(301.091)	(348.314)	(397.467)
Internal Borrowing	**35.506**	**29.024**	**21.707**	**15.292**	**5.918**
Internal Borrowing as % of CFR	15%	11%	7%	4%	1%
Reserves, Capital Balances and Provisions	59.605	57.803	54.374	53.802	53.574
Capital Receipts	2.293	1.503	1.337	2.326	2.326
Total Cash Backed Reserves and Provisions	**61.898**	**59.306**	**55.711**	**56.128**	**55.900**
Less External Investments Target	(20.000)	(20.000)	(20.000)	(20.000)	(20.000)
Balance Available for Internal Borrowing	**41.898**	**39.306**	**35.711**	**36.128**	**35.900**
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	26.392	30.282	34.004	40.836	49.982
Total Projected Investments Balance	**24.392**	**28.282**	**32.004**	**38.836**	**47.982**

Borrowing Strategy

2.26 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. The Council will continue to internally borrow to finance the capital programme for as long as it has the capacity to do so, however most of the Council's balances are now exhausted, and most of the new borrowing will be financed externally.

2.27 The Council's Final Capital Proposals 2025/26 to 2029/30 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £51.108M for the Council Fund and £176.404M for HRA.

Table 5 – Forecast New Borrowing

Scheme	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**20298/30**	**Total**
	£M	£M	£M	£M	£M	£M
General Fund						
Supported Borrowing	3.377	3.377	3.377	3.377	3.377	16.885

Education Unsupported Borrowing SCFL	0.051	0.202	0.000	0.000	0.000	0.253
Education PIPELINE Unsupported Borrowing SCFL	1.692	0.000	3.348	0.000	0.000	5.040
Education Appropriation Funded Debt St Cyres ALN	0.632	0.000	0.000	0.000	0.000	0.632
Education Appropriation Funded Debt SCFL	1.205	0.107	0.000	0.000	0.000	1.312
Education PIPELINE Appropriation Funded Debt SCFL	1.036	0.665	0.000	0.000	0.000	1.701
City deal	0.157	0.423	0.620	3.313	2.394	6.907
Non Treasury Investment Strategy	3.000	2.465	2.484	3.000	0.000	10.949
Non Treasury Investment Strategy - Levelling Up fund	0.000	0.535	0.516	0.000	0.000	1.051
Fleet Parking Unsupported Borrowing	1.880	0.000	0.000	0.000	0.000	1.880
LGBI Highway Resurfacing	2.699	1.799	0.000	0.000	0.000	4.498
Total General Fund	**15.729**	**9.573**	**10.345**	**9.690**	**5.771**	**51.108**
HRA Account						
Housing Revenue Account	**16.666**	**28.064**	**48.209**	**39.778**	**43.687**	**176.404**
Total New Borrowing	**32.395**	**37.637**	**58.554**	**49.468**	**49.458**	**227.512**

2.28 The Council is also projecting to use £5.125M of general fund Capital receipts between 2025/26 and 2029/30. In addition, as part of the Final Revenue Proposals for 2025/26 the Council sets out a reduction in its reserves of 30% or approximately £17M to 31 March 2030. This reduces the Council's ability to finance capital programme through internal borrowing.

2.29 Another factor influencing the Council's borrowing strategy is the high level of maturing debt on the Council's existing borrowing over the coming years which is £41.600M between 2025/26 and 2029/30.

2.30 Taking these factors into account and the Council's requirement to hold approximately £20M in investment balances, the Council's additional external borrowing requirement will be £276.512M over the coming five years as set out in the table below.

Table 6 – Forecast External Borrowing

Scheme	2025/26	2026/27	2027/28	2028/29	2029/30	Amount
	£M	£M	£M	£M	£M	£M
New Borrowing	32.395	37.637	58.554	49.468	49.458	227.512
Replacement Borrowing	17.000	9.000	8.000	5.000	10.000	49.000
Total External Borrowing	**49.395**	**46.637**	**66.554**	**54.468**	**59.458**	**276.512**

2.31 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 2025/26

2.32 As set out in the Council's Balance Sheet projections in paragraphs 2.22 to 2.23, the Council, following discussions with MUFG Corporate Markets Treasury Services (Previously Link Group), will seek to maintain approximately £20M investment balance in addition to any working capital surplus during the period, where this is not possible the £20M target should be restored in the following financial year. The accuracy of these estimates will again be impacted using reserves as planned and the delivery of the capital programme as profiled.

2.33 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.

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

- Debt Management Account Deposit Facility (DMADF) of the Bank of England
- UK Treasury Bills
- UK Local Authorities (including Police and Fire Authorities)
- Money Market Funds
- Bank Call Accounts

2.35 The Council will continue to take the “Investment Ladder” approach when placing any investments during 2025/26 which ensures that maturities are spread out throughout the financial year.

2.36 In 2025/26 the Council will consider placing any funds available for investment with the counterparties below. Although Council may also consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

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

2.38 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 to UK Government under the Local Government Act 2003 to collect any outstanding sums.

2.39 The Treasury Management section will in 2025/26 retain the maximum principal investment at £5M in any one counterparty 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 the Treasury Management Advisers. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.

2.40 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.

2.41 The bank call account is held with Lloyds Bank PLC. The account is lower interest yielding but has the benefit of instant access to the funds deposited. The maximum investment in this account is £10M.

2.42 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.

Annual Minimum Revenue Provision Statement 2025/26

2.43 Capital expenditure when financed by long term debt incurs two elements of cost being interest 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).

2.44 The Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] 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 broad aim of the Welsh Government Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

2.45 The following statement incorporates options recommended in the Guidance.

2.46 The Council proposes to apply the Asset Life method to calculate MRP on outstanding supported borrowing incurred up to 31 March 2025 using a straight-line calculation over 50 years. The Council will apply the Asset Life Method to calculate MRP on supported borrowing incurred on or after 1 April 2025 using a straight-line calculation over an appropriate number of years (using the average asset life as at February in the current financial year), dependent on the period of time that the capital expenditure is likely to generate benefits which is equivalent to the asset's life.

2.47 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 (50 years) in equal instalments, starting in the year after the asset becomes operational.

2.48 Included in the 2025/26 revenue estimates are principal repayments totalling £0.192M in respect of prudential borrowing (not supported for revenue purposes). The provision made in respect of these schemes is commensurate with the asset life as estimated by the Council's external valuer. Of this funding £0.682M is in respect of Sustainable Communities for Learning and £0.124M in respect of loans raised for City Deal over a set period of 25 years.

2.49 The MRP payment on the loan borrowed from Salix SEELS for the boiler refit at Stanwell School will amount to £0.004M in 2025/26. The loan will be fully repaid in 2028/29. The MRP payment on the loan borrowed from Salix for the Street Lighting Energy Reduction Strategy will amount to £0.333M in 2025/2026. The loan will be fully repaid in 2027/28.

2.50 In addition, MRP provision totalling £0.529M has been included in respect of the Local Government Borrowing Initiative (LGBI) funding from Welsh Government for Sustainable Communities for Learning, the Local Road Network Improvement scheme, and Affordable Housing. The provision in respect of LGBI schemes is commensurate with the applicable Welsh Government funding streams through the Revenue Support Grant. Loans have been raised on an annuity basis, so MRP contributions vary annually.

2.51 MRP will be charged at 2% of the outstanding Housing Revenue Account (HRA) Capital Financing Requirement in respect of housing asset incurred pre 2021/22. For debt incurred from 2021/22 onwards the HRA will move to an Asset Life method (50 years) for calculating the Minimum Revenue Provision.

2.52 Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27.

2.53 For the education pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed in 2027/28.

2.54 The estimates associated with the Council's lease liability are now reflected in these MRP estimates in line with CIPFA requirements. IFRS16 is the accounting standard that will bring the assets and liabilities associated with the Council's leased assets onto the balance sheet.

2.55 Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2025, the budget for MRP has been set as follows:

Table 7 – Forecast Minimum Revenue Payment

	01.04.2024 Estimated CFR	2024/25 Estimated MRP	31.03.2025 Estimated CFR	2025/26 Estimated MRP
	£M	£M	£M	£M
General Fund				
Supported Borrowing	106.520	2.699	107.402	3.178
Prudential Borrowing	11.945	1.101	10.998	0.951
Long Term Liabilities (IFRS 16 Leasing)	5.843	0.981	5.835	1.009
Total General Fund	**124.308**	**4.781**	**124.235**	**5.138**
Housing Revenue Account Borrowing	80.327	1.734	96.557	2.122
Total	**204.635**	**6.515**	**220.792**	**7.260**

2.56 The Head of Finance/Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

Treasury Management Policy Statement

2.57 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 is attached at Appendix 3.

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. Climate Change and Nature Implications

4.1 The Council's 'Treasury Management Policy has a section detailing Environmental and Social Governance considerations as part of the Council's approach to Treasury Management.

4.2 Councils and the UK Government are implementing policies in response to Climate Change.

4.3 Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

5. Resources and Legal Considerations

Financial

5.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

Employment

5.2 There are no direct employment issues relating to this report

Legal (Including Equalities)

5.3 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory

6. Background Papers

6.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition).

6.2 The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes (2021 Edition.

6.3 WG guidance on local authority investments.

Appendix 1

Quarter 3 Treasury Management Prudential Indicators 2024/25

- The following tables are a summary of the reporting requirements for Prudential and Treasury Indicators, as per the 2021 CIPFA Prudential Code for Capital Finance in Local Authorities and 2021 CIPFA Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes. The indicators are required to help Members understand and evaluate the prudence and affordability of the Authority's capital expenditure plans and the borrowing and investment activities undertaken in support of this.

Prudential Indicators
Estimates of capital expenditure
Actual capital expenditure
Estimates of CFR
Actual CFR
Authorised limit for external debt
Operational boundary for external debt
Actual external debt
Gross debt and the CFR
Estimates of financing costs to net revenue stream
Actual financing costs to net revenue stream

Treasury Indicators
Liability Benchmark
Maturity Structure of borrowing
Limits for long-term treasury management investment
Quarterly Investment Yield

1. Capital Expenditure

The purpose of this indicator is to provide a summary of the Council's capital expenditure. It reflects the capital programme that is being requested to be approved within the quarter 3 Capital Monitoring report which is on the same agenda as this report. A supplementary table is included detailing the resources to be applied to finance the capital spend and so highlight any net financing need over the reporting period.

- This table shows a comparison of the capital programme as agreed by Cabinet with the latest updated Capital Programme which is reported as part of the Quarter 3 Capital Monitoring.

Table 1 – Capital Expenditure

Capital Expenditure	2024/25 Original Estimate £M	2024/25 Revised Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Non HRA	73.599	46.794	76.246	57.228	32.614
HRA	38.745	33.626	30.460	40.774	61.795
Total Capital Expenditure	**112.344**	**80.420**	**106.706**	**98.002**	**94.409**
IFRS16 Leasing New Advances	0.000	0.974	0.000	0.000	0.000
Total Capital Expenditure	**112.344**	**81.394**	**106.706**	**98.002**	**94.409**

Capital Expenditure by Service	2024/25 Original Estimate £M	2024/25 Revised Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Learning & Skills	25.430	17.444	19.342	2.309	2.000
Social Services	1.731	2.021	1.373	0.302	0.225
Environment & Transport	11.916	13.977	16.784	7.978	4.124
Place	4.335	8.863	14.889	9.785	1.821
Corporate Resources	0.992	2.238	0.312	0.294	0.298
City Deal	0.697	0.000	0.157	0.423	0.620
Pipeline Schemes	28.498	2.251	23.389	36.137	23.526
Housing Revenue Account (HRA)	38.745	33.626	30.460	40.774	61.795
Total Capital Expenditure	**112.344**	**80.420**	**106.706**	**98.002**	**94.409**
IFRS16 Leasing New Advances	0.00	0.974	0.00	0.00	0.00
Total Capital Expenditure	**112.344**	**81.394**	**106.706**	**98.002**	**94.409**

Changes to the Financing of the Capital Programme

- The table below shows the main sources of funding for the capital expenditure plans of the Authority shown above, highlighting the original supported and unsupported elements of the capital programme and the expected financing arrangements of this capital expenditure.

- The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt the Minimum Revenue Provision (MRP). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Table 2 – Net Financing Need

Sources of Capital Financing	**2024/25 Original Estimate £M**	**2024/25 Revised Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**
Total Capital Expenditure	112.344	81.394	106.706	98.002	94.409
Financed by:					
GCF Grant	3.540	3.540	4.229	4.229	4.229
General Fund Reserves & Revenue	6.547	6.121	7.811	1.543	0.800
HRA Reserves & Revenue	8.197	7.156	6.979	6.540	7.516
S106	1.937	4.730	1.935	2.350	2.435
Grants	50.284	34.190	50.164	43.949	20.209
Capital Receipts (General & HRA)	4.086	2.807	3.194	1.754	0.666
Total Financing	74.591	58.544	74.312	60.365	35.855
Net Financing need for the year	**37.753**	**22.850**	**32.394**	**37.637**	**58.554**
Prudential Borrowing Requirement	**34.307**	**18.430**	**29.017**	**34.260**	**55.177**
Supported Borrowing Requirement	**3.446**	**3.446**	**3.377**	**3.377**	**3.377**
IFRS16 New Advances	**0.000**	**0.974**	**0.000**	**0.000**	**0.000**
Total Borrowing Requirement	**37.753**	**22.850**	**32.394**	**37.637**	**58.554**
Total Financing Need	**112.344**	**81.394**	**106.706**	**98.002**	**94.409**

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

2. Capital Financing Requirement

- The table below shows the CFR, which is the underlying external need for the Council to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary. The Authority has revised the Capital Financing Requirement estimate for 2024/25 downwards which primarily reflects a decrease in the estimated borrowing for the Housing Revenue Account (HRA), Vehicles, City Deal & The Sustainable Communities for Learning Programme.

Table 3 – Capital Financing Requirement

	2024/25 Original Estimate £M	**2024/25 Revised Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**
Prudential Indicator – the Capital Financing Requirement					
CFR – Non-Housing	127.907	118.400	130.000	135.152	140.907
CFR - HRA	108.346	96.557	111.101	136.706	181.891
Total CFR excl Other Long Term Liabilities (OLTL)	**236.253**	**214.957**	**241.101**	**271.858**	**322.798**
Non HRA OLTL CFR	0.00	5.835	4.403	3.830	3.252
Total CFR	**236.253**	**220.792**	**245.504**	**275.688**	**326.050**
Net Financing Need for the Year	37.753	21.701	32.395	37.637	58.554
Adjustment for Adoption of IFRS16	0.000	5.842	0.000	0.000	0.000
Net Financing Need for OLTL	0.000	0.973	(0.423)	0.000	0.000
Less Minimum Revenue Provision	(6.092)	(5.534)	(6.251)	(6.880)	(7.614)
Less Minimum Revenue Provision Leasing	0.00	(0.981)	(1.009)	(0.573)	(0.578)
Net movement in CFR	**31.661**	**22.001**	**24.712**	**30.182**	**50.362**

Table 4 – General Fund Capital Financing Requirement

Non HRA Capital Financing Requirement	**2024/25 Original Estimate £M**	**2024/25 Revised Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**
Opening CFR	118.708	118.465	118.401	130.000	135.152

Non HRA OLTL CFR	0.000	5.843	5.835	4.403	3.830
Net Financing Need for the Year	13.446	3.911	15.729	9.573	10.345
Net Financing Need for the Year OLTL	0.000	0.974	(0.423)	0.000	0.000
Appropriation	0.000	(0.175)	0.000	0.000	0.000
Less Minimum Revenue Provision	(4.247)	(3.800)	(4.129)	(4.422)	(4.590)
Less Minimum Revenue Provision Leasing	0.000	(0.981)	(1.009)	(0.573)	(0.578)
Closing Non HRA CFR	**127.907**	**124.236**	**134.404**	**138.981**	**144.159**

Table 5 Housing Revenue Account Capital Financing Requirement

HRA Capital Financing Requirement	**2024/25 Original Estimate £M**	**2024/25 Revised Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**
Opening CFR	85.884	80.327	96.557	111.101	136.706
Net Financing Need for the Year	24.307	17.790	16.666	28.064	48.209
Appropriation	0.000	0.175	0.000	0.000	0.000
Less Minimum Revenue Provision	(1.845)	(1.734)	(2.122)	(2.460)	(3.024)
Closing HRA CFR	**108.346**	**96.558**	**111.101**	**136.705**	**181.891**

3. Borrowing Activity

- A key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and next two financial years. This allows some flexibility for limited early borrowing for future years. In line with CIPFA guidance the Council will not borrow more than or in advance of its needs purely 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. The figure shown below reflects the Council's current strategy in respect of maximising internal borrowing. This will be kept under review in consultation with the Council's Treasury Management advisers.

4. The Authorised Limit

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

Table 6 Authorised Limit

Authorised limit for external debt	2024/25 Original Estimate £M	2024/25 Revised Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Borrowing	271.200	255.394	286.207	321.078	371.753
Other long-term liabilities	0	10.000	10.000	10.000	10.000
Total	**271.200**	**265.394**	**296.207**	**331.078**	**381.753**

5. Operational Boundary

- The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Authority's expectations of the level at which external debt would not ordinarily be expected to exceed.

- The Council will also set for the forthcoming financial year and the following two financial years an Operational boundary for its total gross external debt, separately identifying borrowing from other long-term liabilities.

Table 7 Operational Boundary

Operational Boundary for External Debt	2024/25 Original Estimate £M	2024/25 Revised Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Borrowing	255.687	239.655	260.831	295.167	345.425
Other Long-Term Liabilities	0	4.515	3.083	2.510	1.982
Total Debt (Year End Position)	**255.687**	**244.170**	**263.914**	**297.677**	**347.407**

6. Gross Debt and the Capital Financing Requirement

- An authority should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes.

- To ensure that over the medium-term debt will only be for a capital purpose the Council should ensure that debt does not, expect in the short term, exceed the total Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years.

- The Council must disclose the closing balance for actual gross borrowing in respect of the financial period just ended. This will clarify to Members the Authority's overall level of external debt and allow comparison to the Authority's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Table 8 Gross External Debt and CFR

	2024/25	2024/25	2025/26	2026/27	2027/28
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
CFR (Loans)	236.253	214.957	241.101	271.858	322.798
Gross borrowing (Loans)	199.607	162.554	205.595	242.834	301.090
Under/(over) borrowing (Loans)	**36.646**	**52.403**	**35.506**	**29.024**	**21.708**

	2024/25	2024/25	2025/26	2026/27	2027/28
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
CFR (Other Long Term Liabilities)	0	5.835	4.403	3.830	3.252
Gross borrowing (Other Long Term Liabilities)	0	4.515	3.083	2.510	1.982
Under/(over) borrowing (Other Long Term Liabilities)	**0**	**1.320**	**1.320**	**1.320**	**1.270**

Table 9 Gross Borrowing at Year End

	2024/25	2024/25	2025/26	2026/27	2027/28
	Original Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Loans at start of year	155.412	143.312	162.554	205.595	242.834
Lease/PFI liabilities at start of year	0	4.522	4.514	3.083	2.510
Total gross borrowing at start of year	**155.412**	**147.834**	**167.068**	**208.678**	**245.344**
New borrowing for capital spends	37.754	23.701	32.395	37.637	58.554
New borrowing for maturing debt	14.000	7.500	17.000	9.000	8.000

New lease/PFI liabilities	0	0.974	0.000	0.000	0.000
Loan repayments	(7.559)	(11.959)	(6.354)	(9.398)	(8.298)
Lease & PFI repayments	0	(0.981)	(1.431)	(0.573)	(0.528)
Loans at end of year	**199.607**	**162.554**	**205.595**	**242.834**	**301.090**
Lease/PFI liabilities at end of year	**0**	**4.515**	**3.083**	**2.510**	**1.982**
Total gross borrowing at end of year	**199.607**	**167.069**	**208.678**	**245.344**	**303.072**

Table 10 Gross Debt / Internal Borrowing

	2024/25 Original Estimate £M	2024/25 Revised Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
External Net Borrowing	199.607	162.554	205.595	242.834	301.090
Other Long-Term Liabilities	0	4.515	3.083	2.510	1.982
Total Debt	199.607	167.069	208.678	245.344	303.072
CFR (Year End Position)	**236.253**	**220.792**	**245.504**	**275.688**	**326.050**
CFR (Year End Position excl OLTL)	**236.253**	**214.957**	**241.101**	**271.858**	**322.798**
Estimated Internal Borrowing	**36.646**	**52.403**	**35.506**	**29.024**	**21.708**

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

7. Ratio of Relevant Financing Costs to Net Revenue Stream

- This Indicator shows the trend in the cost of capital borrowing and other longterm obligation costs against the net revenue stream i.e., Council Tax and Social Housing rent income.

  - The higher the ratio, the higher the proportion of resources tied up just to service net capital costs and which represent a potential affordability risk.
  - The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream.
  - After the year end, the proportion of financing costs to net revenue stream will be calculated directly from the Council's income and expenditure statement.

Table 11 Ratio of Financing Costs to Net Revenue Stream

	2024/25 Original Estimate	2024/25 Revised Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%	%
Non-HRA	**2.78**	**2.92**	**2.93**	**2.88**	**2.92**
Maximum Non-HRA	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**
HRA	**21.74**	**20.57**	**24.21**	**28.73**	**34.47**
Maximum HRA	**40.00**	**40.00**	**40.00**	**40.00**	**40.00**

- 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.

8. The Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.
- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.
- This indicator should cover as a minimum the forthcoming financial year and the following two years. However, CIPFA strongly recommend that it is produced for at least ten years and should ideally cover the full debt maturity profile.

- The presentation should be in the form of a chart covering the following four areas:
- Existing Loan Debt (current external debt borrowing portfolio split by type of loan and presented as a stacked bar chart).
- Loans CFR (excluding any part of the CFR relating to other long-term liabilities.
- Net loans requirement (loan debt less Treasury Management Investments at the last financial year end and projected into the future based on approved prudential borrowing, planned MRP and other major cash flow forecasts).
- Liability Benchmark (net loans requirement plus any short term liquidity allowance).

- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.

- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.

- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

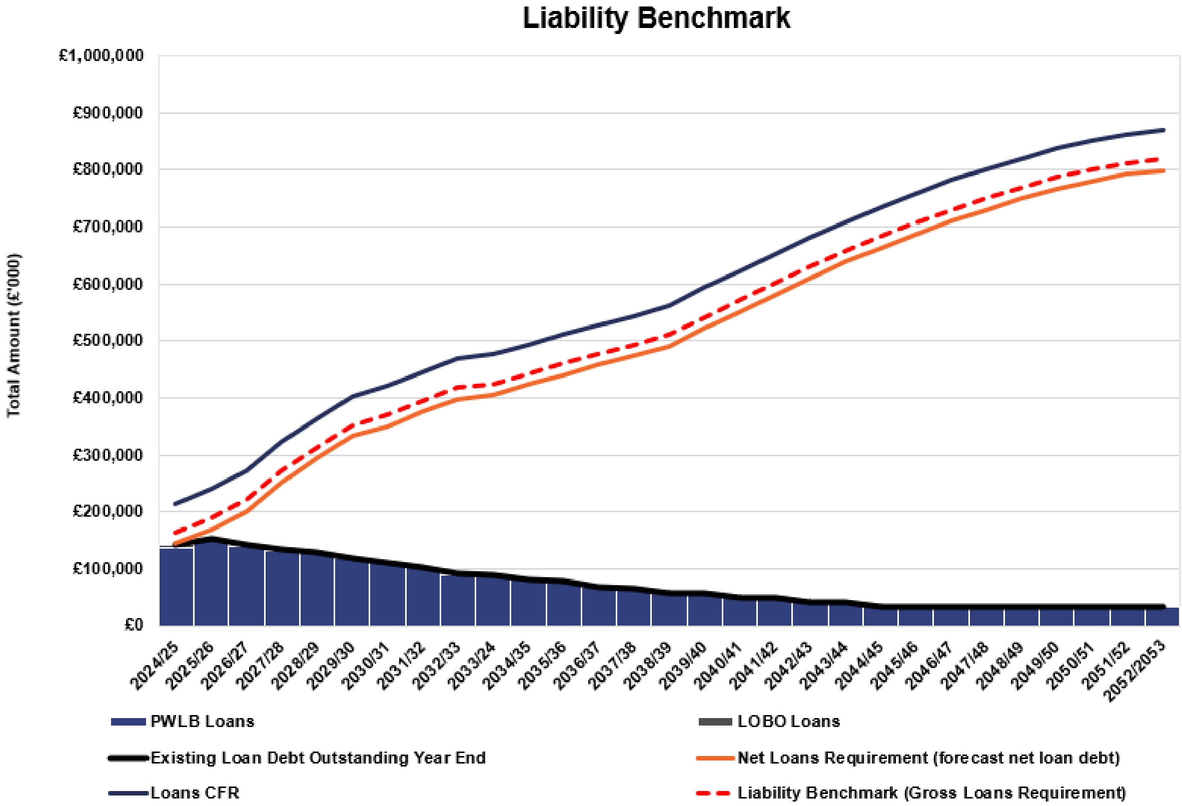


Table 12 – Liability Benchmark

	Projected CFR	Projected External Debt	Projected Under/Over Borrowing
	£000s	£000s	£000s
2024/25	214.96	143.31	71.65
2025/26	241.10	153.85	87.25
2026/27	271.86	141.68	130.18
2027/28	322.80	133.50	189.30
2028/29	363.61	128.44	235.17

2029/30	403.39	118.37	285.02
2030/31	417.09	111.32	305.77
2031/32	433.97	103.11	330.86
2032/33	456.71	91.06	365.65
2033/34	464.15	90.00	374.15
2034/35	482.36	80.38	401.98
2035/36	499.67	78.21	421.46
2036/37	517.15	67.16	449.99
2037/38	533.81	65.08	468.73
2038/39	551.47	57.00	494.47
2039/40	582.55	56.92	525.63
2040/41	613.14	48.83	564.31
2041/42	642.06	48.74	593.32
2042/43	671.41	40.65	630.76
2043/44	700.02	40.56	659.46
2044/45	725.67	32.47	693.20
2045/46	746.62	32.47	714.15
2046/47	773.05	32.47	740.58
2047/48	792.98	32.47	760.51
2048/49	801.29	32.47	768.82
2049/50	837.57	32.47	805.10
2050/51	843.56	32.47	811.09
2051/52	855.30	32.47	822.83
2052/53	862.16	32.47	829.69
2053/54	868.10	28.22	839.88
2054/55	844.20	28.22	815.98

- Over the 30 year period the chart shows that external borrowing falls below the liability benchmark. For as long as usable reserve balances are available the Council will maintain this under borrowed position.

- This means that the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council’s reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the 30 year period

- The Council’s current investments balances are detailed later in this report. These investments are expected to reduce further as reserves are utilised.

- The Council have forecast that in the worst-case scenario a buffer of £20M will be required to manage the day-to-day cash flow and therefore this amount is included as part of the treasury management liquidity benchmark. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

9. Maturity Structure of Borrowing

- The Council is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Council's exposure to large sums falling due for refinancing.

- The Council will set for the forthcoming year both upper and lower limits with respect to the maturity structure of external borrowing. The periods to which these limits will apply are as follows:

  - Under 12 months
  - 12 Months and within 24 months
  - 24 months and within 5 years
  - 5 years and within 10 years
  - 10 years and above

- As of 31st December 2024, the maturity breakdown of the Council's borrowing is set out in the table below.

Table 13 Maturity Structure of Borrowing

		Original		**Revised**	
	Actual	**Lower Limit**	**Upper Limit**	**Lower Limit**	**Upper Limit**
	%	**%**	**%**	**%**	**%**
Under 12 months	**0.51**	0	10	0	20
12 months and within 24 months	**4.32**	0	10	0	40
24 months and within 5 years	**15.35**	0	20	0	40
5 years and within 10 years	**26.13**	0	20	0	40
10 years and above	**53.69**	0	100	0	100

- Due to the elevated levels in interest rates currently prevailing in the market the Council as advised by its treasury consultants, MUFG Corporate Markets Treasury Services (previously Link Asset Services), has borrowed externally over shorter maturity dates as interest rates are forecast to fall in the shorter term. This resulted in a breach of this treasury indicator in the "5 years and within 10 years range" and the indicator has been revised accordingly, as set out in the Strategy. Where PIs of this nature are breached they will be noted in the next monitoring report. This is considered a prudent course of action which will benefit the Council in the longer term.

10. Limits for Long Term Treasury Management Investments

- This Indicator is seeking to support control of liquidity risk. The limits should be set regarding the Authority's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds.

- The indicator relates solely to the Authority's investments for treasury management purposes.

- Where a Council invests, or plans to invest, for periods longer than a year, the Council will set an upper limit for each forward financial year period for the maturing of such investments.

Table 14 – Limits for Long Term Treasury Management Investments

	2024/25 Probable £M	2025/26 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M
Limit for investments > a year	£0m	£10m	£10m	£10m

11. Investment Yields

- The averagely monthly yields from the Council's investments for October to December 2024 are set out below. The 25-basis point fall in the bank base rate to 5% in August 2024 and again to 4.75% in November 2024 is reflected in the returns from the Council's investments from October 2024.

Table 15 – Average Monthly Interest

Average Monthly Interest	Local Authorities	Debt Management Office	Lloyds Bank	CCLA Money Market Funds	Federated Money Market Funds
	%	%	%	%	%

Oct-24	5.05	4.94	4.88	4.95	4.97
Nov-24	4.90	4.78	4.75	4.79	4.84
Dec-24	4.65	4.70	4.62	4.75	4.77

Appendix 2

Treasury Management and Investment Strategy 2025/26

Introduction

- Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks.

- The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2025/26 to 2027/28. 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 considering the following:

  - CIPFA Treasury Management In the Public Services Cross Sectional Guidance Notes 2021 Edition
  - CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition
  - Local Government Act 2003
  - Welsh Government Guidance on Investments

Prudential Codes of Practice

- 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 considered.

- 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 Investment 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 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes

- CIPFA published the revised Codes on 20th December 2021 and therefore the Council, must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any related reports during the financial year, which are taken to Full Council for approval.

- The revised Treasury Management Code requires an authority to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- Class Long-term treasury investments, (including pooled funds) as commercial

investments unless justified by a cash flow business case.

- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.
- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HOF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.
- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.
- Confirm a requirement for local authorities to produce an annual Capital Strategy.

Capital Strategy

- The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:
  - a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
  - an overview of how the associated risk is managed.
  - the implications for future financial sustainability.

- The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

- The capital strategy is being reported to Cabinet on the same agenda as this report.

- The Strategy itself will be updated bi-annually and evolve over future years.

Reporting Requirements Treasury

Management Reporting

- The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
  a. **Prudential and Treasury indicators and Treasury Strategy** (this report) The first, and most important report is forward looking and covers:
     - Capital plans, (including prudential indicators)
     - Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
     - Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
     - Annual Investment Strategy, (the parameters on how investments are to be managed)

- **A Mid-Year Treasury Management report** – This is primarily a progress report which will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly monitoring update reports.

- **An Annual Treasury report –** This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- **Quarterly Reports – providing updates on Treasury & Prudential Indicators.** These additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is also undertaken by the Governance and Audit Scrutiny Committee.

Scrutiny

- The above reports are required to be adequately scrutinised before being recommended to Cabinet and Full Council. This role is undertaken by the Governance and Audit Scrutiny Committee.

The Treasury Management Strategy

- The Strategy for 2025/26 covers two main areas:

1. Capital Issues

- Capital expenditure plans and the associated prudential indicators.
- Minimum Revenue Provision (MRP) policy statement.

2. Treasury Management

* Economic background
* Prospects for interest rates
* Current Treasury Position
* Borrowing Strategy
* 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

- These elements cover the requirements of the Local Government Act 2003, Welsh Government Investment Guidance and MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Treasury Management Training

Treasury Management Officers

- 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 training needs of treasury management officers are periodically reviewed and are assessed as part of the staff appraisal process and from the in-house meetings between the Treasury Management Team and the Head of Finance/Section 151 Officer when required. MUFG Corporate Market Treasury Services (previously Link Group) provide regular online training seminars to ensure that changes to the Codes of Practice are incorporated into the framework of the Authority's Treasury Management & Investment strategies and are adhered to Treasury Management officers log all training courses attended in a training folder on the server.

Council Members

- The CIPFA Treasury Management Code requires the Head of Finance/Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Code states that all local authorities are expected to have a "formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making".

- The scale and nature of this will depend on the size and complexity of the Authority's treasury management needs. Local authorities should consider how to assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

- The Council's treasury advisor MUFG Corporate Markets provides treasury management training for Members, the last training course took place on 17th February 2025.

- Previous feedback from the sessions held indicated that they had full or some understanding of the following areas.
  - Understanding of Treasury Management and the relationship to Revenue and Capital Budgets.
  - Current economic position and the future outlook.
  - Council's Borrowing Strategy and borrowing need in future years.
  - Borrowing options available to the Council.
  - What Internal Borrowing is and why the Council utilises Internal Borrowing.
  - Understand the Liability Benchmark.
  - Understand why the Council invests prioritising Security, Liquidity and then Yield.
  - Understand where the Council currently holds investments.
  - Understand the risk profile of the Council's current investments.

- As a minimum, applicable to both officers and members, Councils should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.

- Prepare tailored learning plans for treasury management officers and members.
- Require treasury management officers and members to undertake self-assessment against the required competencies.
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis.

Treasury Management Consultants

- The Council first appointed Link Group, Link Treasury Services Limited, now called MUFG Corporate Markets as their external treasury management consultants from September 2018 and their contract has now been extended to October 2025 a retendering exercise is planned for summer 2025. The services provided include:

- Advice and guidance on relevant policies, strategies and reports.
- Twice yearly strategy meetings
- Balance Sheet Projections
- Advice on investment decisions.
- Notification of credit ratings and changes.
- Other information on credit quality.
- Advise on changes to the CIPFA Codes of Practice.
- Advice on debt management decisions.
- Advice and new accounting standards.
- Reports on treasury performance.
- Forecasts of interest rates; and
- Training courses.

* The Authority recognises that responsibility for treasury management decisions always remains with the Authority 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, the treasury management consultants.
* It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

Capital Expenditure Plans and 2025/26 -2029/30 Prudential Indicators

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

- All prudential and treasury indicators are included in the Treasury Management and Investment Strategy and are approved at Full Council. The indicators are then reported/updated quarterly as required by the Prudential Code of Practice. Any breaches in these indicators will be noted within next monitoring report. The one exception is the Authorised Limit which is 1 of 2 indicators that place limits on external debt, which if breached will be reported to Council at the earliest opportunity. The key difference between the Authorised Limit and the other indicators is that the Authorised Limit cannot be breached without prior approval of Full Council.

Capital Expenditure and Financing

- 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	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£M	**£M**	**£M**	**£M**	**£M**
Non HRA	76.246	57.228	32.614	23.558	10.800
HRA	30.460	40.774	61.795	49.203	51.551
Total Capital Expenditure	**106.706**	**98.002**	**94.409**	**72.761**	**62.351**

Capital Expenditure	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
By Service	**£M**	**£M**	**£M**	**£M**	**£M**
Learning & Skills	19.342	2.309	2.000	2.000	2.000

Social Services	1.373	0.302	0.225	0.215	0.200
Environment & Transport	16.784	7.978	4.124	3.885	3.710
Place	14.889	9.785	1.821	1.150	1.150
Corporate Resources	0.312	0.294	0.298	0.473	0.431
City Deal	0.157	0.423	0.620	3.313	2.394
Pipeline Schemes	23.389	36.137	23.526	12.522	0.915
Housing Revenue Account (HRA)	30.460	40.774	61.795	49.203	51.551
Total Capital Expenditure	**106.706**	**98.002**	**94.409**	**72.761**	**62.351**
IFRS16 Leasing New Advances	0.000	0.000	0.000	0.000	0.000
Total Capital Expenditure	**106.706**	**98.002**	**94.409**	**72.761**	**62.351**

- The estimates reflect the Housing Business Plan Proposals and figures also reflect the 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.

Sources of Capital Financing	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**	**2028/29 £M**	**2029/30 £M**
Total Capital Expenditure	106.706	98.002	94.409	72.761	62.351
Financed by:					
GCF Grant	4.229	4.229	4.229	4.229	4.229
General Fund Reserves & Revenue	7.811	1.543	0.800	0.800	0.800
HRA Reserves & Revenue	6.979	6.540	7.516	3.355	1.794
S106	1.935	2.350	2.435	0.000	0.000
Grants	50.164	43.949	20.209	14.398	5.570
Capital Receipts (General & HRA)	3.194	1.754	0.666	0.511	0.500
Total Financing	**74.312**	**60.365**	**35.855**	**23.293**	**12.893**
Net Financing need for the year	32.394	37.637	58.554	49.468	49.458
Prudential Borrowing Requirement	**29.017**	**34.260**	**55.177**	**46.091**	**46.081**
Supported Borrowing Requirement	**3.377**	**3.377**	**3.377**	**3.377**	**3.377**
Total	**32.394**	**37.637**	**58.554**	**49.468**	**49.458**

- The Net Financing Requirement in year is reduced by the Minimum Revenue Provision to produce a lower annual change in Debt Liability/Capital Financing Requirement as set out below:

	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
	£M	£M	£M	£M	£M
Prudential Borrowing Requirement	29.018	34.260	55.177	46.091	46.081
Supported Borrowing Requirement	3.377	3.377	3.377	3.377	3.377
Minimum Revenue Provision	(6.251)	(6.882)	(7.614)	(8.660)	(9.679)
Adjusted Net Borrowing Requirement In Year	**26.144**	**30.755**	**50.940**	**40.808**	**39.779**

The Council's Borrowing Need - Capital Financing Requirement (CFR)

- 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 schemes 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:

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	118.465	118.400	130.000	135.152	140.907
HRA CFR	80.327	96.557	111.101	136.706	181.891
Total CFR excl OLTL	**198.792**	**214.957**	**241.101**	**271.858**	**322.798**
Non HRA OLTL CFR	0.000	5.835	4.403	3.830	3.252
Total CFR	**198.792**	**220.792**	**245.504**	**275.688**	**326.050**

In-Year Movement CFR	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	(0.695)	(0.065)	11.600	5.152	5.755
HRA CFR	3.865	16.230	14.544	25.605	45.185
Total excl OLTL	**3.170**	**16.165**	**26.144**	**30.757**	**50.940**
Non HRA OLTL CFR	0	5.835	(1.432)	(0.573)	(0.578)
Total CFR	**3.170**	**22.000**	**24.712**	**30.184**	**50.362**

Ratio of General Capital Financing Requirement to Net Revenue Budget

- This local indicator demonstrates the total loans the Council has raised to finance the General Fund Capital Programme as a percentage of the Net Revenue Budget as set out below.

	2024/25 Estimate	2025/26 Estimate
	£M	£M
Net Revenue Budget	308.861	331.574
General Fund CFR	118.400	130.000
%	**38%**	**39%**

Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.

- CIPFA notes in the 2021 TM Code: “The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash.

- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.

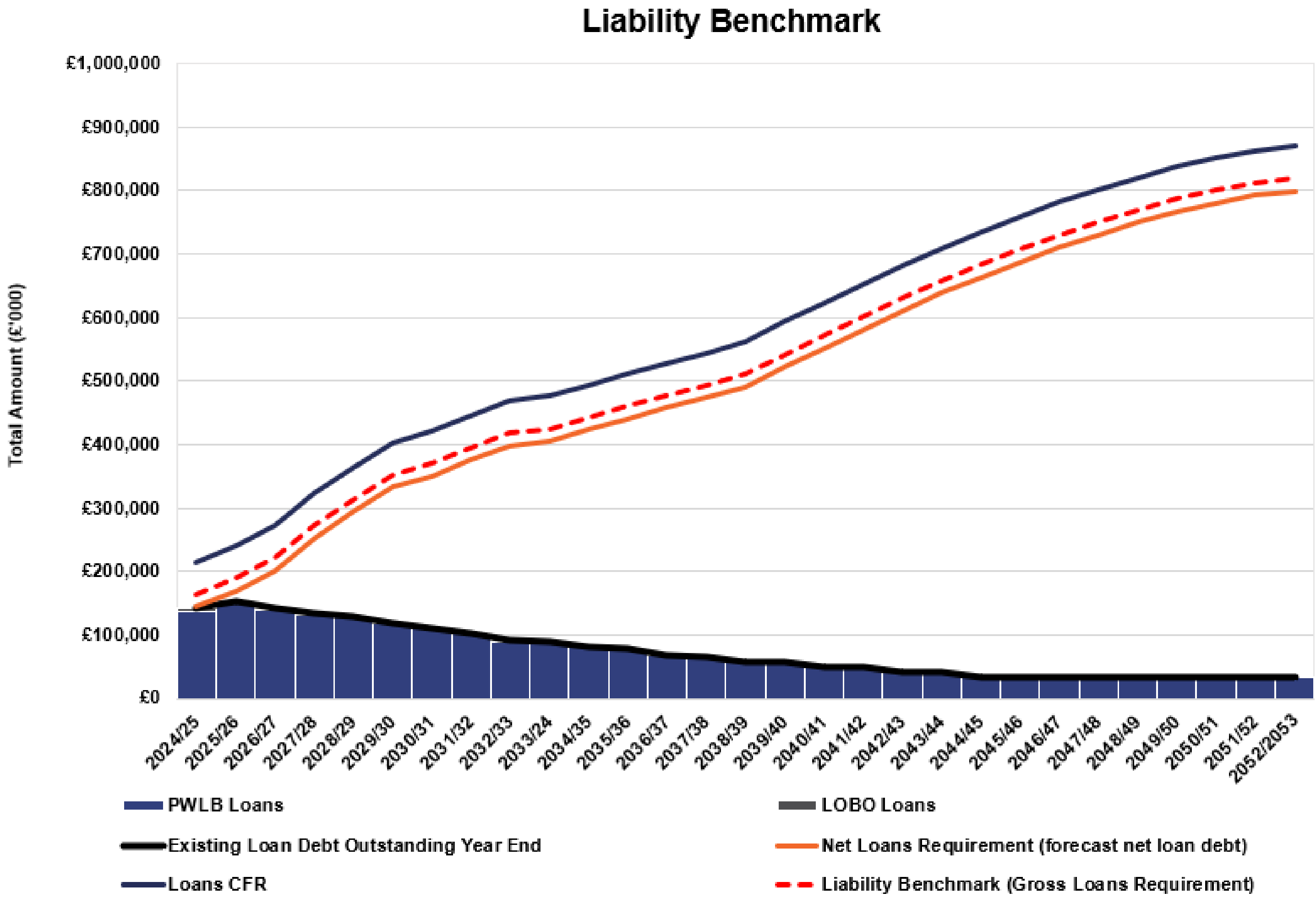
- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.

- The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. CIPFA also recommends that the optimum position for external borrowing should be at a level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.
- There are four components to the Liability Benchmark

1. Existing loan debt outstanding.
2. Loans Capital Financing Requirement (CFR) calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on only approved prudential borrowing and planned Minimum Revenue Provision (MRP).
3. Net loans requirement, detailing the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement) which equals net loans requirement plus short-term liquidity allowance.

- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.

- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

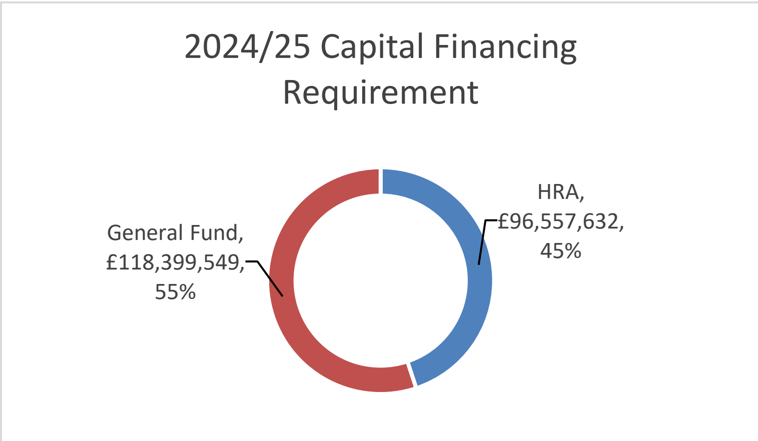


- The projected CFR and external borrowing data illustrated in this chart are set out in the table below.

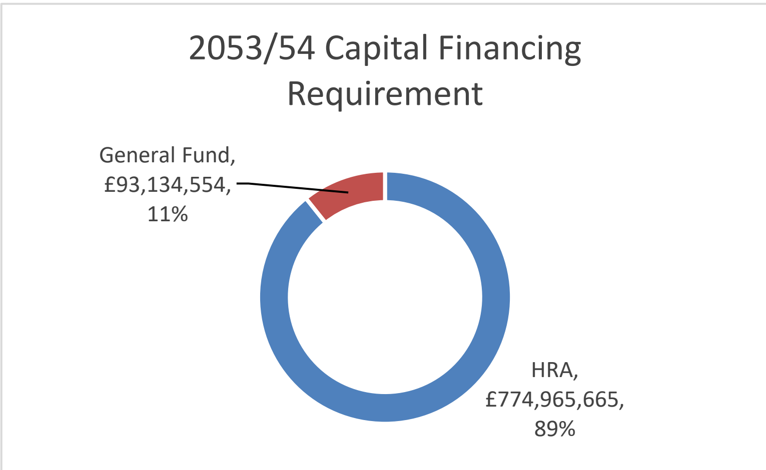
	Projected CFR	Projected External Debt	Projected Under/Over Borrowing
	£000s	£000s	£000s
2024/25	214.96	143.31	71.65
2025/26	241.10	153.85	87.25
2026/27	271.86	141.68	130.18
2027/28	322.80	133.50	189.30
2028/29	363.61	128.44	235.17
2029/30	403.39	118.37	285.02
2030/31	417.09	111.32	305.77
2031/32	433.97	103.11	330.86
2032/33	456.71	91.06	365.65
2033/34	464.15	90.00	374.15
2034/35	482.36	80.38	401.98
2035/36	499.67	78.21	421.46
2036/37	517.15	67.16	449.99
2037/38	533.81	65.08	468.73
2038/39	551.47	57.00	494.47
2039/40	582.55	56.92	525.63
2040/41	613.14	48.83	564.31
2041/42	642.06	48.74	593.32
2042/43	671.41	40.65	630.76
2043/44	700.02	40.56	659.46
2044/45	725.67	32.47	693.20
2045/46	746.62	32.47	714.15
2046/47	773.05	32.47	740.58
2047/48	792.98	32.47	760.51
2048/49	801.29	32.47	768.82
2049/50	837.57	32.47	805.10
2050/51	843.56	32.47	811.09
2051/52	855.30	32.47	822.83
2052/53	862.16	32.47	829.69
2053/54	868.10	28.22	839.88
2054/55	844.20	28.22	815.98

- The chart shows that external borrowing (the shaded area) falls below the LB (the dotted line). For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e., the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) in order to finance the capital programme, it has committed to throughout the 30 year period.

- The chart shows the Capital Financing Requirement from the Council rising from an estimated £215M in year 1 to £844M in year 30. The majority of this new borrowing need relates to the proposals outlined in the HRA 30 year Business Plan that was approved by Council in January 2025.



- As illustrated in the charts above and below the Business Plan increases the Capital Financing Requirement (CFR) for HRA from £97M or 45% of the overall CFR to £775M or 89% of the Council's Capital Financing Requirement.



- Whilst this is clearly a significant sum it should be noted that all HRA expenditure proposals are subject to stringent affordability requirements, detailed sensitivity analysis and require a pay back over a maximum 60 year period. More detail on the Housing Business Plan can be found in the Cabinet Report linked here.

- Given the significant increase in HRA borrowing the Treasury Team will look to prepare a Liability Benchmark that more clearly distinguishes between General Fund and HRA borrowing for future iterations of the Strategy.

- The Council currently holds significant investments as detailed in this report, but these are expected to reduce as reserves are spent and the latest investment position shows this reduction has taken place to a certain extent in year. The Council will endeavour to maintain a £20M investment buffer as part of the treasury management liquidity benchmark, where this is not achievable it will attempt to rectify the position by the end of the following financial year. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

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).

- The Minimum Revenue Provision Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] 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.

- Section 35 of the above guidance on MRP commencement states:

- When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP provision until the financial year following the one in which the asset becomes operational. “Operational” here has its standard accounting definition.”

Minimum Revenue Provision (MRP) Statement

- The Council's MRP Statement is set out below.
- For supported capital expenditure the Council will implement the "Asset Life" Method when calculating MRP. MRP on outstanding supported borrowing incurred up to 31 March 2025 using a straight-line calculation over 50 years. The Council will apply the Asset Life Method to calculate MRP on supported borrowing incurred on or after 1 April 2025 using a straight-line calculation over an appropriate number of years (using the average asset life as at February in the current financial year), dependent on the period of time that the capital expenditure is likely to generate benefits which is equivalent to the asset's life.
- 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 (maximum 50 years) 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 (50 years), starting in the year after the asset becomes operational.
- Loans advanced for Affordable Housing, Band B Schools and the Highway Net Resurfacing Programme under LGBI schemes are the exception where MRP is calculated on an annuity basis.
- Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until at the earliest the next financial year.
- For the Pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed.
- Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2024, the budget for MRP has been set as follows:

	01.04.2024 Estimated CFR	2024/25 Estimated MRP	31.03.2025 Estimated CFR	2025/26 Estimated MRP
	£M	£M	£M	£M
General Fund				
Supported Borrowing	106.52	2.699	107.402	3.178
Prudential Borrowing	11.945	1.101	10.998	0.951
Long Term Liabilities (IFRS 16 Leasing)	5.843	0.981	5.835	1.009
Total General Fund	**124.308**	**4.781**	**124.235**	**5.138**
Housing Revenue Account Borrowing	80.327	1.734	96.557	2.122
Total	**204.635**	**6.515**	**220.792**	**7.260**

MRP Overpayments

- Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).
- VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
- The Authority has not made any cumulative VRP overpayments to date.

Economic Background

- The third quarter of 2024/25 (October to December) saw:
- Interest rates rise by a further 100 basis points, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Gross Domestic Product (GDP) growth contracting by 0.1% month/month in October 2024 following no growth in the quarter ending September 2024.
- The 3-month year/year rate of average earnings growth increase from 4.4% in September to 5.2% in October 2024.
- Consumer Price Index (CPI) inflation increase to 2.6% in November 2024.

- Core CPI inflation increase from 3.3% in October to 3.5% in November 2024.
- The Bank of England cut interest rates from 5.0% to 4.75% in November 2024 and hold them steady in December 2024
- 10-year gilt yields starting October 2024 at 3.94% before finishing up at 4.57% at the end of December 2024 (peaking at 4.64%).
- The 0.1% month/month fall in GDP in October 2024 was the second decline in a row and meant that GDP would need to rise by 0.1% month/month or more in November and December,2024 for the economy to grow in Quarter 4 rather than contract. With on-going concern over the impact of the October 2024 budget, higher interest rates and weak activity in the Eurozone (EZ), GDP growth has been revised down for 2025 to 1.3%. It was initially 1.8% in the immediate wake of the Budget.
- The retail sector after rising by 1.4% quarter/quarter (July – September 2024) had a difficult final quarter of the year. The 0.7% month/month fall in retail sales in October 2024 suggested that households' concerns about expected tax rises announced in the Budget on 30th October 2024 contributed to weaker retail spending at the start of quarter The monthly decline in retail sales volumes in October 2024 was reasonably broad based with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November 2024 combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024.
- The Government's October 2024 budget outlined plans for a significant £41.5Bn (1.2% of GDP) increase in taxes by 2029/30, with £25Bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing.
- The Budget loosens fiscal policy relative to the previous government's plans although fiscal policy is still being tightened over the next five years. GDP growth is somewhat stronger over the coming years than had previously been forecasted. The Bank of England forecasts fourth quarter 2024 GDP growth to pick up to almost 1¾% through 2025 before falling back to just over 1% in 2026.
- December's 2024 pay data showed a rebound in wage growth that will likely add to the Bank

of England's inflationary concerns. The 3-month year/year rate of average earnings growth increased from 4.4% in September 2024 to 5.2% in October 2024. This was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October 2024 and the 3 month year/year rate fell from 4.7% to 4.3%.

- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November 2024. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.
- CPI inflation has been on the rise in quarter 3 of 2024 with the annual growth rate increasing from 1.7% in September 2024 to 2.3% in October,2024 before rising further to 2.6% in November 2024. Although services CPI inflation stayed at 5.0% in November 2024, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. showing that currently that isn't much downward momentum.
- Throughout quarter 3 2024 gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October 2024 to 4.57% by the year end.
- On 7 November 2024, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the Monetary Policy Committee (MPC) emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events. At the 18 December 2024 meeting, another split vote arose with members voting 6-3 to keep Bank Rate on hold at 4.75%. The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long.

Interest Rate forecasts

- The Council has appointed MUFG Corporate Market Treasury Services (previously Link Group) as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The Public Works Loan Board (PWLB) rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. For Housing Revenue Account authorities, the lower Housing Revenue Account (HRA) PWLB rate has also been available since 15 June 2023 (standard rate minus 60 bps) but is available for HRA borrowing only.

- The latest forecast, updated on 10th February 2025, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in eradicating excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Forecast Rates 10th February 2025

	Mar 25	Jun 25	Sep 25	Dec 25	Mar 26	Jun 26	Sept 26	Dec 26	Mar 27	Jun 27	Sept 27	Dec 27	Mar 28
Bank Rate	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 Mnth Ave Earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 Mnth Ave Earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 Mnth Ave Earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

- Following the 30th October 2024 Budget, the outcome of the US Presidential election on 6th November 2024, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November,2024 central forecasts have been significantly revised for the first time since May 2024. Bank Rate forecast is now 50-75 basis points higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- The anticipated major investment in the public sector, according to the Bank of England (BOE) is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027.

- The central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. The forecast for the next reduction in Bank Rate to be made in is February 2025 and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November 2024). Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

- Like the US Federal Bank (the Fed), the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time".

- Regarding PWLB, the short to medium part of the curve is forecast to remain elevated over the course of 2025, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- The introduction/extension of tariffs by the US that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to core policies post-election will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia

- The revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points) which has been accessible to most authorities since 1 November 2012. There is a lower Housing Revenue Account (HRA) PWLB rate that started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 basis points.

Gilt Yields and PWLB Rates

- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, but the risks to these forecasts are to the upside. Target borrowing rates are set **two years forward** (as rates are expected to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB Debt	Current borrowing rate as at 10.02.2025	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	4.90%	4.40%	4.20%
10 years	5.28%	4.70%	4.40%
25 years	5.79%	5.10%	4.80%
50 years	5.49%	4.80%	4.60%

Looking Forward - Borrowing

- The long-term (beyond 10 years) forecast for Bank Rate has now increased from 2.75% to 3%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority (LA) to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Borrowing

- The capital expenditure plans previously detailed, highlight the service activity of the Council. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity and the Authority'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.

Current Portfolio Position

- The overall treasury management debt portfolio as at 31 March and 31 December 2023 is shown below.

External Debt Portfolio	31/03/2024	31/03/2024	31/12/2024	31/12/2024
	£M	% Interest	£M	% Interest
Borrowing				
Public Works Loan Board	137.076	4.44	149.954	4.25
LOBOS	4.000	4.50	0.000	0.00
WG Loans	1.050	0.00	1.050	0.00
Salix Loans	1.186	0.00	0.848	0.00
Local Authority Loans	0.000	0.00	2.000	4.65
Total External Borrowing	**143.312**		**153.852**	

Balance Sheet Projections

- To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2025/26 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2025/26 to 2029/30. 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.

	2025/26	2026/27	2027/28	2028/29	2029/30
	£M	£M	£M	£M	£M
Capital Financing Requirement excl OLTL	241.101	271.858	322.798	363.606	403.385
Less projected External Loans	(205.595)	(242.834)	(301.091)	(348.314)	(397.467)
Internal Borrowing	**35.506**	**29.024**	**21.707**	**15.292**	**5.918**
Internal borrowing as a % of Capital Financing Requirement	**15%**	**11%**	**7%**	**4%**	**1%**

Reserve/Capital Grant Balances/Provisions	59.605	57.803	54.374	53.802	53.574
Capital Receipts	2.293	1.503	1.337	2.326	2.326
Total Cash Backed Reserves and Provisions	**61.898**	**59.306**	**55.711**	**56.128**	**55.900**
Less External Investments Approximate Target	(20.000)	(20.000)	(20.000)	(20.000)	(20.000)
Balance Available for Internal Borrowing	**41.898**	**39.306**	**35.711**	**36.128**	**35.900**
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	26.392	30.282	34.004	40.836	49.982
Total Projected Investments Balance	**24.392**	**28.282**	**32.004**	**38.836**	**47.982**

- Within the range of prudential indicators there are several 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 2025/26 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.

Gross Debt and the Capital Financing Requirement

- 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 Excluding Leasing	2024/25	2025/26	2026/27	2027/28
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
External Debt as at 1st April	143.312	162.554	205.595	242.834
Expected Change in Debt	(11.959)	(6.354)	(9.398)	(8.298)
New Advances Debt	23.701	32.395	37.637	58.554

Replacement Borrowing	7.500	17.000	9.000	8.000
Gross Debt 31st March	**162.554**	**205.595**	**242.834**	**301.090**
The Capital Financing Requirement	(214.957)	(241.101)	(271.858)	(322.798)
Internal Borrowing	**(52.403)**	**(35.506)**	**(29.024)**	**(21.708)**

External Debt Leasing	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
External Debt as at 1st April Leasing	4.522	4.515	3.083	2.510
Expected Change In OLTL	(0.981)	(1.431)	(0.573)	(0.528)
New Advances Debt OLTL	0.974	0.000	0.000	0.000
Gross Debt 31st March	**4.515**	**3.083**	**2.510**	**1.982**

- The Head of Finance/Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

- Other long term liabilities have been included in revised Prudential Indicators from 2024/25 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16. Whilst indicative figures have been included and the work to calculate the likely impact is well advanced some workstreams to finalise the transition year for the standard is ongoing and a Delegated Authority will be requested to enable amendments to be made to both the Treasury Management Strategy and Capital Strategy for this standard. The standard is a notional accounting adjustment and will not impact the bottom line of the accounts.

Limits on External Debt

The Operational Boundary for External Debt

- This is the 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 which would be noted as part of routine monitoring reports.

Operational Boundary	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
Debt	239.655	260.831	295.167	345.425
Other Long Term Liabilities	4.515	3.083	2.510	1.982
Total	**244.170**	**263.914**	**297.677**	**347.407**

The Authorised Limit for External Debt

- 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. If the Authorised Limit is breached this will be reported to the next Council meeting.
- These authorised limits set out below are 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 prudent but not the 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	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M
Debt	255.394	286.207	321.078	371.753
Other Long Term Liabilities	10.000	10.000	10.000	10.000
Total	**265.394**	**296.207**	**331.078**	**381.753**

Borrowing Strategy

- The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, the Capital Financing Requirement, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024 and the first quarter of 2025.

- The Council's Final Capital Proposals 2025/26 to 2029/30 forecast borrowing (supported and unsupported borrowing) in the period are set out in the table below totalling £227.512M (£176.404M of which is required for HRA). The Council is projecting to use £5.125M of general fund Capital receipts between 2025/26 and 2029/30.

Capital Expenditure and Financing

Scheme	2025/26	2026/27	2027/28	2028/29	2029/23	Total
	£M	£M	£M	£M	£M	£M
General Fund						
General Capital Funding Supported Borrowing	3.377	3.377	3.377	3.377	3.377	16.885
Unsupported Borrowing						
Education Unsupported Borrowing SCFL	0.051	0.202	0.000	0.000	0.000	0.253
Education PIPELINE Unsupported Borrowing SCFL	1.692	0.000	3.348	0.000	0.000	5.040
Education Appropriation Funded Debt St Cyres ALN	0.632	0.000	0.000	0.000	0.000	0.632
Education Appropriation Funded Debt SCFL	1.205	0.107	0.000	0.000	0.000	1.312

Education PIPELINE Appropriation Funded Debt SCFL	1.036	0.665	0.000	0.000	0.000	1.701
City deal	0.157	0.423	0.620	3.313	2.394	6.907
Non-Treasury Investment Strategy	3.000	2.465	2.484	3.000	0.000	10.949
Non-Treasury Investment Strategy Levelling Up fund	0.000	0.535	0.516	0.000	0.000	1.051
Fleet Parking Unsupported Borrowing	1.880	0.000	0.000	0.000	0.000	1.880
LGBI Highway Resurfacing	2.699	1.799	0.000	0.000	0.000	4.498
Total General Fund	**15.729**	**9.573**	**10.345**	**9.690**	**5.571**	**51.108**
Housing Revenue Account						
Housing Revenue Account	**16.666**	**28.064**	**48.209**	**39.778**	**43.687**	**176.404**
Total Capital Programme Borrowing	**32.395**	**37.637**	**58.554**	**49.468**	**49.458**	**227.512**

- In addition, as part of the Initial Revenue Proposals 2025/26 the Council is projecting a reduction in its reserves, capital grant balances and provisions of 30% or approximately £17M from 2024/25 levels by 2029/30.
- 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 £41.600M between 2025/26 and 2029/30.
- In the context of these factors it is possible the Council will not be able to maintain the £20M headroom as an investment target however, it is intended that any shortfall would be rectified in the following financial year, the Council's additional external borrowing requirement is £276.512M as set out in the borrowing requirement table below for the period 2025/26 to 2029/30. 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.

Class of Borrowing	2025/26	2026/27	2027/28	2028/29	2029/30	Total
	£M	£M	£M	£M	£M	£M
New Borrowing	32.395	37.637	58.554	49.468	49.458	227.512
Replacement Borrowing	17.000	9.000	8.000	5.000	10.000	49.000
Total External Borrowing	**49.395**	**46.637**	**66.554**	**54.468**	**59.458**	**276.512**

- 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 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 2025/26 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 borrowing 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 borrowing rates than that currently forecast, 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.

Policy on Borrowing in Advance of Need

- The Council will not borrow more than or in advance of its needs purely 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.

- 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.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

- Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).

- The Authority's treasury management consultants MUFG Corporate Market Treasury Services (previously Link Group) will keep the Authority informed as to the relative merits of each of these alternative funding sources.

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 held 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 took the option to repay this LOBO loan in August 2024 as the transaction did not incur any penalty costs.

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

- 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.

	2024/25 Estimate	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
	%	%	%	%
HRA Rents	20.57	24.21	28.73	34.47
Target	40.00	40.00	40.00	40.00

	2024/25 Estimate	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
	%	%	%	%
Non-HRA	2.92	2.93	2.88	2.92
Target	5.00	5.00	5.00	5.00

- 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 Limit for Principal Sums Invested for Over a Year

- The Authority has set the following limits for investments over 364 days.

	2024/25 Probable £M	**2025/26 Estimate £M**	**2026/27 Estimate £M**	**2027/28 Estimate £M**
Limit for investments > a year	£0M	£10M	£10M	£10M

- No borrowing longer than 364 days has been undertaken during 2024/25 as the UK economy has been amid an interest rate increase environment.

Fixed Rate Borrowing Maturity Limit for External Debt

- These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

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 Apportioning Interest to the HRA

- Interest will continue to be charged to the HRA using a consolidated rate.

Investments

CIPFA 2021 revised Treasury Management Codes of Practice

- The Welsh Government and CIPA have extended the meaning of "investments" to include both financial and non-financial investments and requires all investments and investment income to be attributed to one of the following purposes.

Treasury Management

- This type of investment arises from the Authority's cash flows or treasury risk management activity and 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

- These are Investments 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".

Commercial Return

- These are investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity, in 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.

- This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Any non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

The Annual Investment Strategy

- The Authority's investment Strategy policy is determined in parallel with Borrowing Strategy and has been written with consideration to the availability of capital receipts and financial reserves and with regard to the following financial statements.

- Welsh Government Guidance on Local Government Investments ("the Guidance").
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code").
- CIPFA Treasury Management Guidance Notes 2021.
- The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

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

- 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 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. This is particular importance during 2024/25 as rates are forecast to fall throughout the period that is covered by this strategy.

- 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.

- Suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	Now	Previously
2024/25 (residual)	4.50%	4.60%
2025/26	4.10%	4.10%
2026/27	3.60%	3.70%
2027/28	3.50%	3.50%
2028/29	3.50%	3.50%
Years 6 to 10	3.50%	3.50%
Years 10+	3.50%	3.50%

- As set out in the Council's Balance Sheet projections, the Council, following discussions with MUFG Corporate Markets Treasury Services (previously Link Group) will seek to maintain a minimum £20M investment balance in addition to any working capital surplus during the period, where this is not possible the £20M target should be restored in the following financial year. 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 2025/26 the Council will place investments with:

  - the Debt Management Account Deposit Facility (DMADF) of the Bank of England
  - UK Local Authorities (including Police and Fire Authorities)
  - UK Treasury Bills
  - Money Market Funds (MMFS)
  - Instant Access Accounts held with Lloyds Bank PLC.

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 currently.

- 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

- 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 continue 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 Deposit Account

- This is an interest earning deposit account with the benefit of instant availability to funds deposited if required.

- 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 2025/26 retain the maximum principal investment set at £5M per institution but may extend the maximum period of investment to 24 months with Local Authorities up to a maximum of £10M if it is considered prudent to do so. 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 will be set at £10M per account and the Lloyds Deposit Account £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.

Environmental, Social & Governance (ESG) Considerations

- This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. While around two thirds of councils have declared a "climate emergency" to date, this has not translated into the incorporation of something more formal within their treasury-related Annual Investment Strategy. Changes to the CIPFA TM Code 2021 saw ESG now incorporated into Treasury Management Practice 1.

Investment Earnings & Performance

- 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. The current shape of the yield curve suggests that this is not the case at present as rates are forecast to fall over the short term.

- Accordingly, 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.

Negative Investment Rates

- The Bank of England is battling to control inflation which hit 10.1% in November 2022 over five times its target rate of 2%. The UK Economy has entered a period of monetary tightening and bank rate peaked at 5.25% in March 2023 but have since fallen to 4.5%. In the circumstances negative interest rates will not feature during this period under review.

Management of Risk

- The Welsh Government and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

- 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 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 as interest rates are currently rising in a bid to rid the economy of inflationary pressures and to cover increasing 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 key ratings used to monitor counterparties are the short-term and long-term ratings. 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.

Categories and Definitions

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 Treasury Investments

- The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. 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.
        - Police & Fire Authorities.
        - 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.

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 consultants and the views of the Head of Finance / Section 151 Officer.

Sovereign Rating

- The UK’s sovereign rating is AA- long term. Having seen an orderly Brexit on the 31st of December 2020 following a trade deal on the 24th of 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-.

Investment Limits

- The Authority has set the following investment limits:

Investment Limit	**Short Term (under 12 months)**	**Long Term (12 months+)**
UK Government -Treasury Bills, and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation.	£5M per organisation
UK Fire & Police Authorities	£5M per organisation.	£5M per organisation

UK Call Bank Accounts in UK Banks	£10M per organisation	Not Applicable
Money Market Funds (AAA)	£10M per organisation	Not Applicable
UK and Foreign Financial Institutions (A-)	£10M per organisation	£5M per organisation

- The Authority does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2025/26. 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 investment portfolio for the period to 31st of December 2024 is set out below:

Investment Counterparty	**Opening Balance**		**Closing Balance Returned**	
	31/03/2024	**% Return**	**31/12/2024**	**% Return**
	£m		**£m**	
UK Local Authorities	27.500	5.51	2.000	4.65
Debt Management Office	0.000	0.00	0.000	0.00
Federated MMF	6.625	5.28	7.400	4.76
CCLA MMF	0.050	5.22	4.850	4.75
Lloyds Deposit Account	0.020	5.17	1.665	4.62
Total	**34.195**		**15.915**	

- Whilst the Council has no specific exposure, the Head of Finance/Section 151 Officer has continued to follow closely the emerging picture in relation to several Council's financial positions and continues temporarily to suspend the placement of investments with certain councils, although the overall investment levels with Councils has reduced significantly during 2024/25 as cash balances have reduced. The Section 151 Officer considers that having taken the advice of MUFG Corporate Markets Treasury Services (previously Link Group) and regarding 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.

External Fund Managers

- External cash or fund managers may be appointed by the Head of Finance/Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are required to comply with:
  - The Guidance on Local Government Investments issued by Welsh Government.
  - The Authority's Annual Investment Strategy

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.

Engagement 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.

IFRS 16 Leasing

- The CIPFA LAASAC Local Authority Accounting Code Board deferred implementation of IFRS16 which deals with the way the Council accounts for its lease arrangements until 1st April 2024, the 2024/25 financial year is the first year of implementation.
- The revised accounting code has required significant changes to how the Authority accounts for contracts that convey the right of use of an asset for a period. Whereas the Authority currently accounts for all its lessee lease arrangements through revenue income and expenditure, under the new arrangement the Authority 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 Authority's CFR and the Authority 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 and provisional figures have been included in this Strategy which give an indication of the scale of the likely liability and associated equivalent financing costs.
- As further work to assess the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements is currently ongoing a delegated authority has been requested to enable limited amendments to the Treasury Management Strategy and Capital Strategy as required in the first year of implementation to these notional adjustments.

Appendix 3

Treasury Management Policy

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

Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming year(s), account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy.

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

Definition

The Council defines Treasury Management as:

“The management of the Council’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Objectives and Purpose

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

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

The objectives of the policy are to: -

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

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

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

Procedure

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

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

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

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

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

Formulation of Treasury Management/Investment Strategy

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

Borrowing Policy

Revenue budget stability is desirable and with this in mind the Council would usually borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings. Currently given the forward projected interest rates for PWLB the Council has (following discussion with MUFG Corporate Market Treasury Services), taken some short term debt to manage the cost of it's external borrowing.

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

Investment Policy

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

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

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

Policy on Custodians

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

Policy on Delegation

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

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

Review Requirements and Reporting Arrangements

The Section 151 Officer shall report to the Council as follows: -

Before the 31st March each year

- The Treasury Management Prudential Indicators for the forthcoming three years; and
- The Treasury Management Strategy, Minimum Revenue Provision Policy 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.

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

A mid-year review during the current year.

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 budgets variations.
- Reviewing the performance of the Treasury Management function.

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

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

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

Environmental, Social & Governance (ESG) Considerations

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

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

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

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

CCLA

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

Federated Hermes

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

- Pragmatism.
- Sustainability.
- Responsibility.

The Council's Appointed Banker and ESG

The Council's appointed banker is Lloyds Bank PLC and the Council utilises an interest yielding deposit account with them. Lloyds Bank approach to ESG is as follows:

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

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 £63.186M 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

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 now known as Sustainable Communities for Learning 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 Sustainable Communities for Learning schemes progress. There were no new additions during 2021/22 but another two are in the process od being set up in 2022/23.

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 £10M and the person authorised to make investment decisions on behalf of the authority must have at least one year’s relevant professional experience. In addition, the firm must assess that, that person has the expertise, experience, and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is suitable for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

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

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