

Meeting of:	<b>Governance and Audit Committee</b>
Date of Meeting:	<b>Monday, 05 February 2024</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Treasury Management and Investment Strategy 2024/25 and Update for 2023/24
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2023 and to submit for consideration the proposed 2024/25 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.
<p>Executive Summary:</p> <ul style="list-style-type: none"> <li>• This interim report outlines the proposed 2024/25 Treasury Management Strategy as detailed in Appendix 1 and provides an update on the Council's Treasury Management operations for the period 1st April to 31st December 2023. All activities were in accordance with the Council's approved strategy on Treasury Management. Appendix 1 to the report will be circulated and made available prior to the Governance and Audit Committee meeting on 5<sup>th</sup> February, 2024.</li> <li>• Total external borrowing as of the 31st of December 2023 was £145.479m at an average rate of 4.37%. New external borrowing totalling £5.000m was undertaken during the first 9 months of 2023/24 at a rate of 4.38% with utilised the special project rate for Housing Revenue Account schemes.</li> <li>• The Council invested with the Debt Management Deposit Facility, Local Authorities, Treasury Bills, Money Market Funds together with Lloyds Bank Call Accounts. Total investments as of the 31st of December 2023 stood at £50.495m at an average rate of 4.53% over the nine-month period.</li> <li>• The Council must ensure that the Prudential Code is complied with, which has been developed by CIPFA as a professional code of practice, last updated in December 2021. To</li> </ul>	

demonstrate that the Council has fulfilled these objectives, the Code sets out a list of Prudential and Treasury indicators that should be calculated together with other factors that must be considered. These are included in Appendix 1 as part of the Strategy.

- The Council also has a legal requirement to comply with the Welsh Government Guidance on Investments and has taken this guidance into consideration when developing the Strategy.
- New Borrowing in the period to 2028/29 is expected to be £184.377m for new Capital Expenditure and a further £14.000M 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 for 2024/25 is attached at Appendix 2 to the report, and will also be circulated and made available prior to the Governance and Audit Committee meeting on 5<sup>th</sup> February, 2024.
- This is the draft Treasury Management Strategy, budget consultation on the Capital Programme Proposals is currently being undertaken and therefore any revision to the programme resulting from the consultation will necessitate changes to the final Treasury Management Strategy presented to Cabinet on 29<sup>th</sup> February 2024.

## Recommendations

1. Committee is recommended to note the Treasury Management interim report for the period 1st April to 31st December 2023.
2. Committee is recommended to approve the policy for making Minimum Revenue Provision in 2024/25.
3. Committee is recommended to approve the proposed 2024/25 Treasury Management and Investment Strategy including the following specific resolutions (detailed in Appendix 1).
  - The Authorised Limit for External Debt be set at £240.9699m for 2023/24, £271.200m for 2024/25, £303.939m for 2025/26 and £336.893m for 2026/27.
  - The Operational Boundary for External Debt be set at £226.147m for 2023/24, £255.687 for 2024/25, £287.406m for 2025/26 and £320.338m for 2026/27.
  - 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 2023/24, £10m for 2024/25, £10m in 2025/26 and £10m in 2026/27 is set for total principal sums invested for over 364 days.
  - The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2024/25 be set as:

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	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

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

## **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.
3. The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.

### **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 low 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.
- 1.8** CIPFA published the revised Codes on 20th December 2021 and has stated that the revisions need to be included in the reporting framework from the 2023/24 financial year. The Authority, therefore, 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.

## **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 Scrutiny Committee before being reported to Council. These are as follows:

### **Treasury Management & Investment Strategy**

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

- Capital Plans (including prudential indicators)
- Minimum Revenue Provision (MRP)
- The Borrowing Strategy
- 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 1) Treasury Management Policy Statement (Appendix 2) or Capital Strategy (a separate report on the Cabinet Agenda for 29<sup>th</sup> February).
- 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.
  - 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 2024/25, is attached at Appendix 1. The Treasury Management Strategy itself covers a rolling period of three years and is intended to link into the Medium Term Financial Planning process. The Investment Strategy covers the next financial year. The document also includes several statutory Prudential Indicators that may be used to support and record local decision making.
- 2.7** The CIPFA LAASAC Local Authority Accounting Code Board set the much delayed implementation of IFRS16 which deals with the way the Council accounts for its lease arrangements 1st April 2024, the 2024/25 financial year. IFRS16 is an accounting standard that will bring the assets and liabilities associated with the Council's lease assets on balance sheet. In the context of this delay the Council continues to undertake an assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements. Work is underway to value know leases that meet the criteria set out in the standard and identify and assess the value of embedded leases within the Council's contractual arrangements, the Treasury Management Strategy for 2024/25 will be revised in year to include the impact of these long term liabilities as part of the Mid Year Report.

## **Proposed Strategy 2024/25**

### **Balance Sheet Projections**

- 2.8** To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2024/25 balance sheet projections have been prepared. These projections reflect the Draft Capital Proposals for the period 2024/25 to 2028/29.
- 2.9** On 31st March 2023 Capital Financing Requirement was £195.622m of which 24% or £47.140m was internally borrowed. The Council had external borrowing of £148.482m.
- 2.10** It is important that the level of Internal Borrowing as a percentage of the total borrowing requirement is kept under review by the Council to monitor the interest rate risk that the Council is exposed to.
- 2.11** As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of external borrowing required in future years. The level of external borrowing is projected to increase as the Council commits to further prudential borrowing, repays existing debt and the balances available to fund current supported borrowing reduces.

Table 2 – Projected Investment Balance

	2024/25	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M	£M
Capital Financing Requirement	236.253	268.856	297.784	321.768	351.348
Less Projected External Loans	(199.607)	(233.964)	(262.977)	(286.997)	(325.196)
<b>Internal Borrowing</b>	<b>36.646</b>	<b>34.892</b>	<b>34.807</b>	<b>34.771</b>	<b>26.152</b>
<b>Internal Borrowing as % of Capital Financing Requirement</b>	16%	13%	12%	11%	7%
Reserves, Capital Balances and Provisions	65.768	64.768	64.999	64.657	64.727
Capital Receipts	3.489	2.045	1.879	2.713	2.702
<b>Total Cash Backed Reserves and Provisions</b>	<b>69.257</b>	<b>66.813</b>	<b>66.878</b>	<b>67.370</b>	<b>67.429</b>
Less External Investments Target	(30.000)	(30.000)	(30.000)	(30.000)	(30.000)
Balance Available for Internal Borrowing	<b>39.257</b>	<b>36.813</b>	<b>36.878</b>	<b>37.370</b>	<b>37.429</b>
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	32.611	31.921	32.071	32.599	41.277
<b>Total Projected Investments Balance</b>	<b>30.611</b>	<b>29.921</b>	<b>30.071</b>	<b>30.599</b>	<b>39.277</b>

## Borrowing Strategy

- 2.12** The Council's approach to the borrowing requirements in recent years on the advice of the Council's Treasury Management adviser has been to adopt a policy of avoiding new external borrowing by running down spare cash balances and reserves to finance capital expenditure. This policy has been based on the high levels of reserves held by the Council. The Council will continue to internally borrow to finance the capital programme for as long as it has the capacity to do so. 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.
- 2.13** The Council's Final Capital Proposals 2024/25 to 2028/29 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £50.248m for the Council Fund and £134.129m for HRA.



Table 3 – Forecast New Borrowing

Scheme	2024/25	2025/26	2026/27	2027/28	2028/29	Amount
	£M	£M	£M	£M	£M	£M
General Fund						
Supported Borrowing	3.446	3.446	3.446	3.446	3.446	17.230
Unsupported Borrowing Band B	0.000	0.360	0.000	0.000	0.000	0.360
Sustainable Communities for Learning Pipeline	1.219	7.701	0.000	0.000	0.000	8.920
Appropriation Funded Band B	3.585	0.000	0.000	0.000	0.000	3.585
City deal	0.697	0.810	2.286	0.807	2.053	6.653
Non Treasury Investment Strategy	3.000	3.000	3.000	3.000	0.000	12.000
Butrills Changing Room	1.500	0.000	0.000	0.000	0.000	1.500
<b>Total General Fund</b>	<b>13.447</b>	<b>15.317</b>	<b>8.732</b>	<b>7.253</b>	<b>5.499</b>	<b>50.248</b>
<b>HRA Account</b>						
Housing Revenue Account	24.307	23.955	27.738	25.124	33.005	134.129
<b>Total New Borrowing</b>	<b>37.754</b>	<b>39.272</b>	<b>36.470</b>	<b>32.377</b>	<b>38.504</b>	<b>184.377</b>

**2.14** The Council is also projecting to use £11.833m of Capital receipts between 2024/25 and 2028/29. In addition, as part of the Final Revenue Proposals for 2024/25 the Council sets out a reduction in its reserves of 54% or £59m to 31 March 2029. This reduces the Council's ability to finance capital programme through internal borrowing.

**2.15** 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 £32.593m between 2024/25 and 2028/29.

**2.16** Taking these factors into account and the Council's requirement to hold approximately £30m in investment balances, the Council's additional external borrowing requirement will be £184.377m over the coming five years as set out in the table below. Balance Sheet projections for the period of the Strategy are set out in paragraphs 2.8 to 2.11 of this report.

Table 4 – Forecast External Borrowing

Scheme	2024/25	2025/26	2026/27	2027/28	2028/29	Amount
	£M	£M	£M	£M	£M	£M
New Borrowing	37.754	39.722	36.470	32.377	38.054	184.377
Replacement Borrowing	14.000	2.000	2.000	0.000	0.000	18.000
<b>Total External Borrowing</b>	<b>51.754</b>	<b>41.722</b>	<b>38.470</b>	<b>32.377</b>	<b>38.054</b>	<b>202.377</b>

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

## **Investment Strategy**

- 2.18** As set out in the Council's Balance Sheet projections in paragraphs 2.8 to 2.11, the Council, following discussions with Link Asset Management Ltd., will seek to maintain approximately £30m investment balance in addition to any working capital surplus during the period. The accuracy of these estimates will again be impacted by the use of reserves as planned and the delivery of the capital programme as profiled.
- 2.19** 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.
- 2.20** 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.
- 2.21** The Council will continue to take the "Investment Ladder" approach when placing investments during 2024/25 which ensures that maturities are spread out throughout the financial year. In a rising interest rate environment, the regular stream of maturing investments brought about by this approach should provide opportunities to consistently improve underlying yield, while still allowing flexibility to adjust if market circumstances alter.
- 2.22** In 2024/25 the Council will place investments 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.
- 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

- 2.23** The Council will continually review the financial stability of all parties with whom it places investments.
- 2.24** 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.
- 2.25** The Treasury Management section will in 2024/25 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.
- 2.26** 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.
- 2.27** The bank call account is held with Lloyds Bank PLC. The account is low interest yielding but has the benefit of instant access to the funds deposited. The maximum investment in this account is £5m.
- 2.28** The Council will continue to use credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality. In addition, regard will be given to other available information on the credit quality of banks and building societies.

## Interim Report

- 2.29** All Treasury Management activities for the period 1st April to 31st December 2023 were in accordance with the Council's approved strategy on Treasury Management. The following table sets out the monies borrowed & repaid during the period.

Table 5 – Actual External Loan Debt as at 31<sup>st</sup> December 2023

Loan Type	Opening Balance	Received	Repaid	Closing Balance
	01/04/2023			31/12/2023
	£M	£M	£M	£M
PWLB	141.809	5.000	-7.566	139.243
LOBO Loans	4.000	0.000	0.000	4.000

WG Government Loans	1.050	0.000	0.000	1.050
Salix Loans	1.524	0.000	-0.338	1.186
Temporary Loans	0.100	0.000	-0.100	0.000
<b>Total</b>	<b>148.483</b>	<b>5.000</b>	<b>-8.004</b>	<b>145.479</b>

- 2.30** 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 2023 from 4.44% to 4.39%.
- 2.31** The Council borrowed one new loan from the PWLB during the period under review for £5m to fund the Housing Business Plan. These funds were borrowed at a rate of 4.38%.
- 2.32** Maturing Loans with the PWLB totalled £7.566m and were repaid at a rate of 5.64%.
- 2.33** The LOBO (Lenders Option Borrowers Option) loan represents a non PWLB loan that was advanced to the Council in February 2004 at a rate of interest of 4.5%. This loan is repayable in 2054.
- 2.34** Welsh Government loans are made up of two interest free loans advanced by Welsh Government, a Concessionary Loan for £500k and a Town Centre Loan for £550k.
- 2.35** Two loans are included which were originally advanced by Salix for £1,134k & £34k respectively. These have been borrowed to fund energy management schemes, primarily street lighting. Both loans are interest free.
- 2.36** Temporary loans represent loans that have no fixed maturity date. The temporary loan was borrowed from The Vale of Glamorgan Welsh Church Act Fund and was repaid on the 14<sup>th</sup> of November 2023. Interest was calculated using the Sterling Overnight Index Average Rate (SONIA).

### **Maturity Structure of Borrowing**

- 2.37** As of the 31<sup>st</sup> of December 2023, the maturity breakdown of the Council's borrowing portfolio is set out in the table below.

**Table 6 – Maturity Structure of Borrowing**

	<b>Actual</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
	%	%	%
Under 12 months	1.78	0	10
12 months and within 24 months	5.46	0	10

24 months and within 5 years	16.36	0	20
5 years and within 10 years	15.38	0	20
10 years and above	61.02	0	100

**2.38** The Council's investments for the period to 31st December 2023 are set out in the following table.

**Table 7 – Actual Investment Balance as of 31<sup>st</sup> December 2023**

Investment Counterparty	Opening Balance	Invested	Repaid	Closing Balance
	<b>01/04/2023</b>			<b>31/12/2023</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Local Authorities	47.250	78.500	-91.250	34.500
Debt Management Office (DMO)	27.400	547.775	-575.175	0.000
Treasury Bills	8.250	16.350	-23.100	1.500
Money Market Funds (MMF)	11.000	86.000	-82.525	14.475
Lloyds Deposit Account	0.020	0.000	-0.000	0.020
<b>Total</b>	<b>93.920</b>	<b>728.625</b>	<b>-772.050</b>	<b>50.495</b>

**2.39** Interest at an average rate of 4.53% and with an estimated yield of £1.506m (including accrued interest from 2022/23) will be received from maturing Local Authority for the first 9 months of 2023/24.

**2.40** Interest at an average rate of 4.77% and with an estimated yield of £323.409k (including accrued interest from 2022/23) will be received from maturing Debt Management Deposit Facility investments for the first 9 months of 2023/24.

**2.41** The average rate of return on the CCLA Money Market Fund was 4.86% and on the Federated Hermes Money Market Fund 4.92% with estimated yields of £240.428k & £351.088k respectively inclusive of accrued interest for 2022/2023.

**2.42** The Lloyds Instant Access and Monthly Bonus Accounts were amalgamated into one account on the advice of Lloyds Bank on the 12<sup>th</sup> of December 2023. The yield continues to be very poor although it has risen from 0.75% to 5.14%. This instrument continues to be rarely utilised.

**2.43** The average rate of return from Treasury Bills was 4.66% with an estimated yield of £359.597k including accrued interest for 2022/2023. In the second half 2023/24 treasury bill yields have plummeted and no new investments have been placed since October 2023.

## Investment Yields

- 2.44** The average monthly yields from the Council's Investments for October to December 2023 are set out below. The Bank of England's base rates appeared to have peaked and remains at 5.25%.

**Table 8 – Average Monthly Interest**

<b>Average Monthly Interest</b>	<b>Local Authorities</b>	<b>Debt Management Office</b>	<b>Treasury Bills</b>	<b>Money Market Funds</b>
	%	%	%	%
<b>Oct-23</b>	5.04	5.25	5.11	5.28
<b>Nov-23</b>	4.97	5.21	5.14	5.31
<b>Dec-23</b>	5.00	5.19	5.17	5.31

## Annual Minimum Revenue Provision Statement 2024/25

- 2.45** 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).
- 2.46** 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.
- 2.47** The following statement incorporates options recommended in the Guidance.
- 2.48** For supported capital expenditure the Council will implement the "Asset Life Method" of calculating for MRP. MRP will be determined by charging expenditure over the expected useful average life of an asset (40 years) for (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.
- 2.49** 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.

- 2.50** Included in the 2024/25 revenue estimates are principal repayments totalling £392.277k 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 £66.087k is in respect of Sustainable Communities for Learning £171.428k for refuse vehicles against a £1.2m loan for an expected life of 7 years and £154.762k in respect of loans raised for City Deal over a set period of 25 years.
- 2.51** The MRP payment on the loan borrowed from Salix SEELS for the boiler refit at Stanwell School will amount to £4.420k in 2024/2025. 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 £333.222k in 2024/2025. The loan will be fully repaid in 2027/28.
- 2.52** In addition, MRP provision totalling £511.971k 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.
- 2.53** 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.
- 2.54** For debt incurred from 2021/22 onwards the HRA will move to an Asset Life method (50 years) for calculating the Minimum Revenue Provision.
- 2.55** Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26.
- 2.56** For the education pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed in 2027/28.
- 2.57** The estimates associated with the Council's lease liability are not reflected in these MRP estimates. IFRS16 is the accounting standard that will bring the assets and liabilities associated with the Council's leased assets onto the balance sheet.
- 2.58** The Council's liability from leased assets will be incorporated into the Statement of Accounts as soon as they become available and reported to Cabinet and Full Council during 2024/25.
- 2.59** Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2023, the budget for MRP has been set as follows:

**Table 9 – Forecast Minimum Revenue Payment**

	<b>31st March 2024</b>	<b>2024/25</b>
	<b>Estimate CFR</b>	<b>Estimated MRP</b>
	<b>£M</b>	<b>£M</b>
<b>General Fund</b>		
Supported Borrowing	106.546	3.109
Prudential Borrowing	12.162	1.136
<b>Total General Fund</b>	<b>118.708</b>	<b>4.245</b>
Housing Revenue Account Borrowing	85.884	1.845
<b>Total</b>	<b>204.592</b>	<b>6.090</b>

**2.60** As part of the draft Revenue Budget Proposals for 2024/25 there are plans to review the MRP policy with potential resulting savings. Work is ongoing to refine these proposals and a report outlining the proposed change will be brought to Governance and Audit Committee in the coming months following discussions with our Treasury Management Advisors and Audit Wales to ensure the revised policy is prudent. This can then be reflected in the revised Strategy presented as part of the Mid Year Report.

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

### **Treasury Management Policy**

**2.62** Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming years, account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy. Adherence to its requirements is mandatory for all matters relating to Treasury Management and investments and the Policy for 2024/25 is attached at Appendix 2.

### **Next Steps**

**2.63** Currently, the approved timetable requires Cabinet to approve the strategy at Cabinet on the 29th of February 2024 and then the strategy will be considered by Council at a meeting to be held on 4th March 2024.

**2.64** This is the draft Treasury Management Strategy, budget consultation on the Capital Programme Proposals is currently being undertaken and therefore any revision to the programme resulting from the consultation will necessitate



changes to the final Treasury Management Strategy presented to Cabinet on 29th February 2024.

### **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**

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

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

WG guidance on local authority investments.