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 Corporate Performance & Resources 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 Corporate Performance & Resources 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 courses taking place on 5th February 2024. Further training has been arranged on 17th February 2025.

- In further support of the revised training requirements, Members will be required to complete a self-assessment form after the training session in February 2025 to assess their knowledge and identify any shortfalls where further training may be required.

- 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. 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 **By Service**	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M	2029/30 £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	4.554	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	48.488	43.949	20.209	14.398	5.570
Capital Receipts (General & HRA)	3.194	1.754	0.666	0.511	0.500
Total Financing	**72.961**	**60.365**	**35.855**	**23.293**	**12.893**
Net Financing need for the year	33.745	37.637	58.554	49.468	49.458

Prudential Borrowing Requirement	**30.368**	**34.260**	**55.177**	**46.091**	**46.081**
Supported Borrowing Requirement	**3.377**	**3.377**	**3.377**	**3.377**	**3.377**
Total	**33.745**	**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	2026/27	2027/28	2028/29	2029/30
	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Prudential Borrowing Requirement	30.368	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	**27.494**	**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	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	118.465	118.165	131.115	136.267	142.022
HRA CFR	80.327	97.860	112.404	138.009	183.194
Total CFR excl OLTL	**198.792**	**216.025**	**243.519**	**274.276**	**325.216**
Non HRA OLTL CFR	0.000	5.835	4.403	3.830	3.252
Total CFR	**198.792**	**221.860**	**247.922**	**278.106**	**328.468**

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)	(0.300)	12.950	5.152	5.755
HRA CFR	3.865	17.533	14.544	25.605	45.185
Total excl OLTL	3.170	17.233	27.494	30.757	50.940
Non HRA OLTL CFR	0	5.835	(1.432)	(0.573)	(0.578)
Total CFR	**3.170**	**23.068**	**26.062**	**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	331.408
General Fund CFR	124.000	135.518
%	**40%**	**41%**

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

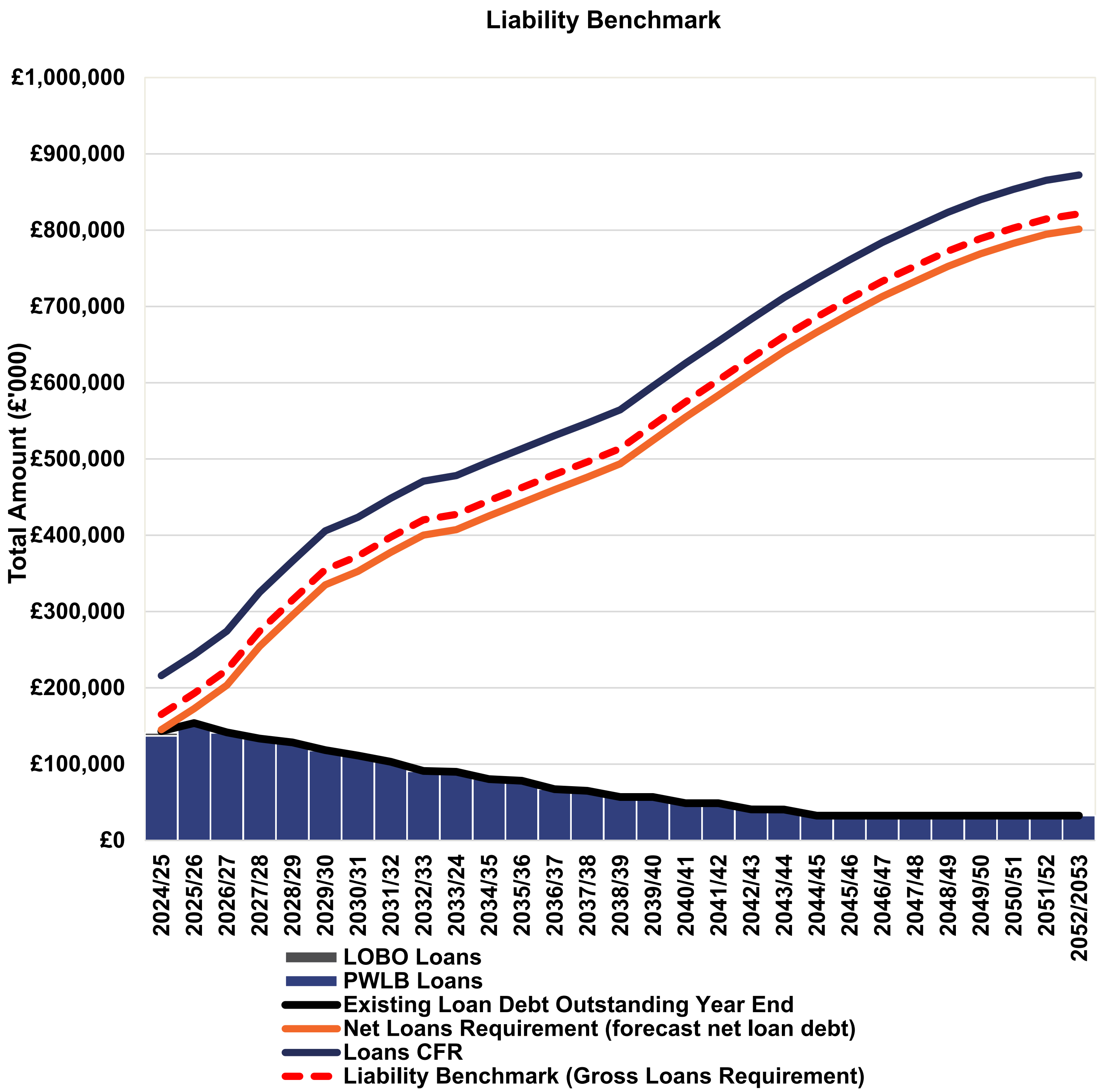
1. Existing loan debt outstanding.
2. Loans Capital Financing Requirement (CFR) calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on only approved prudential borrowing and planned Minimum Revenue Provision (MRP).

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.



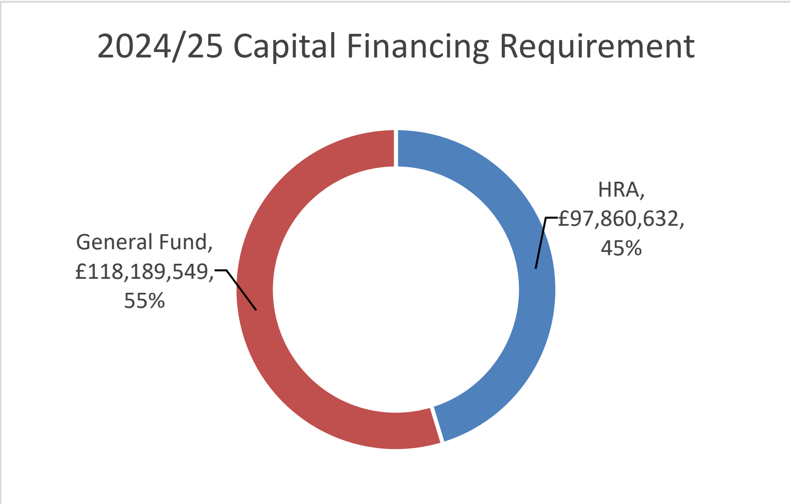
- The projected CFR and external borrowing data illustrated in this chart are set out in the table below.

	Projected CFR	Projected External Debt	Projected Under/Over Borrowing
	£000s	£000s	£000s
2024/25	216.05	143.31	72.74
2025/26	243.52	153.85	89.67
2026/27	274.30	141.68	132.62
2027/28	325.24	133.50	191.74
2028/29	366.05	128.44	237.61
2029/30	405.83	118.37	287.46
2030/31	419.51	111.32	308.19
2031/32	436.39	103.11	333.28
2032/33	459.13	91.06	368.07
2033/34	466.57	90.00	376.57
2034/35	484.78	80.38	404.40
2035/36	502.09	78.21	423.88
2036/37	519.56	67.16	452.40
2037/38	536.23	65.08	471.15
2038/39	553.89	57.00	496.89
2039/40	584.97	56.92	528.05
2040/41	615.56	48.83	566.73
2041/42	644.47	48.74	595.73
2042/43	673.83	40.65	633.18
2043/44	702.43	40.56	661.87
2044/45	728.09	32.47	695.62
2045/46	749.04	32.47	716.57
2046/47	775.47	32.47	743.00
2047/48	795.39	32.47	762.92
2048/49	823.34	32.47	790.87
2049/50	853.50	32.47	821.03
2050/51	845.98	32.47	813.51
2051/52	857.72	32.47	825.25
2052/53	864.58	32.47	832.11
2053/54	870.52	28.22	842.30

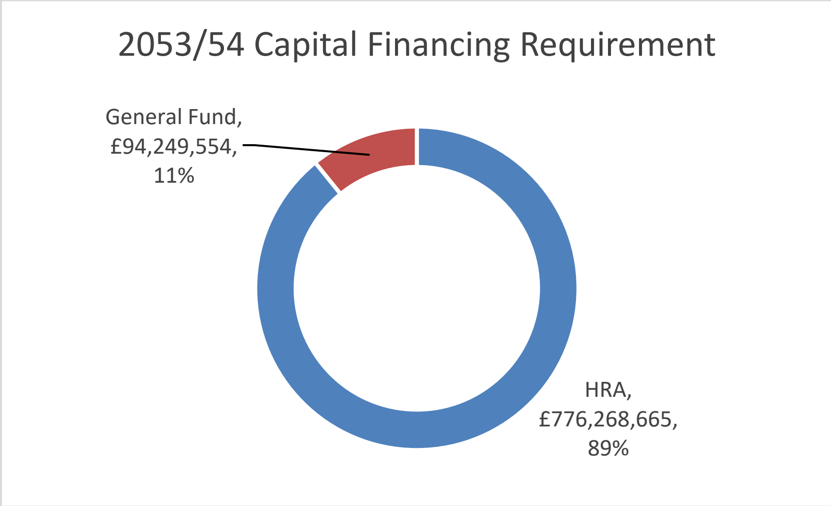
- The chart shows that external borrowing (the shaded area) falls below the LB (the dotted line). For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e., the capital borrowing need of the Council will not be being fully financed with external loan 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 £216M in year 1 to £871M 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 £98M or 45% of the overall CFR to £776M 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	3.109	106.881	3.178
Prudential Borrowing	11.945	1.101	11.284	0.951
Long Term Liabilities (IFRS 16 Leasing)	5.843	0.981	5.835	1.009
Total General Fund	**124.308**	**5.191**	**124.000**	**5.138**
Housing Revenue Account Borrowing	80.327	1.734	97.860	2.122
Total	**204.635**	**6.925**	**221.860**	**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	243.519	274.276	325.216	366.049	405.828
Capital Financing Requirement OLTL	4.403	3.830	3.252	2.687	2.397
Total Capital Financing Requirement	247.922	278.106	328.468	368.736	408.225
Less projected External Loans	(202.759)	(238.200)	(296.457)	(343.680)	(392.833)
Less projected OLTL	(3.083)	(2.510)	(1.982)	(1.595)	(1.381)
Internal Borrowing	**42.080**	**37.396**	**30.029**	**23.461**	**14.011**
Internal borrowing as a % of Capital Financing Requirement	**17%**	**13%**	**9%**	**6%**	**3%**
Reserve/Capital Grant Balances/Provisions	60.626	58.996	55.736	55.164	55.164
Capital Receipts	2.293	1.503	1.337	2.326	2.326
Total Cash Backed Reserves and Provisions	**62.919**	**60.499**	**57.073**	**57.490**	**57.490**
Less External Investments Approximate Target	(20.000)	(20.000)	(20.000)	(20.000)	(20.000)
Balance Available for Internal Borrowing	**42.919**	**40.499**	**37.073**	**37.490**	**37.490**
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	22.839	25.103	29.044	36.029	45.479
Total Projected Investments Balance	**20.839**	**23.103**	**27.044**	**34.029**	**43.479**

- 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	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
External Debt as at 1st April	143.312	161.067	202.759	238.200
Expected Change in Debt	(11.959)	(6.354)	(9.397)	(8.298)
Other Long Term Liabilities	4.522	4.514	3.083	2.510
Expected Change In OLTL	(0.981)	(1.431)	(0.573)	(0.528)
New Advances Debt	24.714	31.046	35.838	58.554
New Advances OLTL	0.974	0.000	0.000	0.000
Replacement Borrowing	5.000	17.000	9.000	8.000
Gross Debt 31st March	**165.582**	**205.842**	**240.710**	**298.438**
The Capital Financing Requirement	(221.860)	(247.922)	(278.106)	(328.468)
Internal Borrowing	**(56.278)**	**(42.080)**	**(37.396)**	**(30.030)**

- 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 Indoicators 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 te likely impact is well advance 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	240.723	263.249	297.584	347.843
Other Long Term Liabilities	4.515	3.083	2.510	1.982
Total	**245.238**	**266.332**	**300.094**	**349.825**

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	256.462	279.625	314.495	365.171
Other Long Term Liabilities	5.000	3.000	3.000	2.000
Total	**261.462**	**282.625**	**317.495**	**367.171**

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 £228.862M (£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
Education PIPELINE Romilly Dining Block	1.350	0.000	0.000	0.000	0.000	1.350
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	**17.079**	**9.573**	**10.345**	**9.690**	**5.571**	**50.248**
Housing Revenue Account						
Housing Revenue Account	**16.666**	**28.064**	**48.209**	**39.778**	**43.687**	**176.404**
Total Capital Programme Borrowing	**33.745**	**37.637**	**58.554**	**49.468**	**49.458**	**228.862**

- 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 22% or approximately £11.5M 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 £41.599M 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 £273.364M 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	33.745	37.637	58.554	49.468	49.458	228.862
Replacement Borrowing	17.000	9.000	8.000	5.000	10.000	49.000
Total External Borrowing	**50.745**	**46.637**	**66.554**	**54.468**	**59.458**	**277.862**

- 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	20.68	23.69	27.26	32.34
Target	40.00	40.00	40.00	40.00

	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%
Non-HRA	3.05	2.94	2.86	2.90
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 £5M.

- 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	£105M 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	**93.920**		**50.495**	

- 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.