SPECIAL COUNCIL - 23RD FEBRUARY 2023

SUBJECT: **TREASURY MANAGEMENT ANNUAL STRATEGY, CAPITAL FINANCE PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY FOR 2023/2024**

REPORT BY: **CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

1. PURPOSE OF REPORT

1.1 To submit for approval the Authority's Annual Strategy for Treasury Management.

1.2 To submit for approval a dataset of Prudential Indicators relevant to Treasury Management and Capital Finance. The report also cross-references to the report by the Chief Executive on Revenue and Capital Budgets ["the budget report"] also considered in this meeting.

1.3 To seek approval of the Minimum Revenue Provision (MRP) policy to be adopted by the Authority for 2023/2024.

2. SUMMARY

2.1 The revised (2021) "Code of Practice for Treasury Management in the Public Services" provides that an Annual Strategy be submitted to Members on or before the start of a financial year to outline the activities planned within the parameters of the Treasury Management Policy Statement and the Treasury Management Practices.

2.2 The Local Government Act 2003 (the '2003 Act') also requires the Authority to set out its Treasury Management Strategy for borrowing for the forthcoming year and to prepare an Annual Investment Strategy, which sets out the policies for managing its investments, giving priority to the security and liquidity of those investments.

2.3 Under Section 15 of the '2003 Act', the Welsh Government (WG) issued guidance on local government investments which is incorporated within the report. Definitions of Local Government investments are given in ***Appendix 1***.

2.4 Under the provisions of the Local Government Act 2003, The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 and subsequent amendments [The Capital Regulations], and the CIPFA's "The Prudential Code for Capital Finance in Local Authorities" [the Code], the Authority is obliged to approve and publish a number of indicators relevant to Capital Finance and Treasury Management.

2.5 With effect from 1st April 2008, WG introduced the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 [the "Amendment Regulations"] which requires the Authority to prepare an Annual Minimum Revenue Provision Policy Statement. This report sets out what the Authority needs to do in order to comply with this requirement.

3. RECOMMENDATIONS

3.1 That the Annual Strategy for Treasury Management 2023/24 be approved.

3.2 That the strategy be reviewed quarterly within the Treasury Management monitoring reports presented to Policy & Resources Scrutiny Committee and any changes recommended be referred to Cabinet, in the first instance, and to Council for a decision. The Authority will also prepare a half-yearly report on Treasury Management activities

3.3 That the Prudential Indicators for Treasury Management be approved as per Appendix 5.

3.4 That the Prudential Indicators for Capital Financing be approved as per Appendices 6 & 7.

3.5 That Members adopt the MRP policy as set out in Appendix 8.

3.6 The continuation of the 2022/23 investment strategy and the lending to financial institutions and Corporates in accordance with the minimum credit rating criteria disclosed within this report.

3.7 That the Authority has approval to borrow £46.8m for the General Fund to support the 2023/24 capital programme and £45.0m for the HRA WHQS and Affordable Homes programme.

3.8 That the Authority continues to adopt the investment grade scale as a minimum credit rating criterion to assess the credit worthiness of suitable counterparties when placing investments.

3.9 That the Authority adopts the monetary and investment duration limits as set in Appendix 3 of the report.

4. REASONS FOR THE RECOMMENDATIONS

4.1 The Annual Strategy report is a requirement of the CIPFA "Code of Practice for Treasury Management in the Public Services".

4.2 The Investment Strategy is a requirement of the Local Government Act 2003.

4.3 To comply with the legislative framework and requirements as indicated in paragraphs 2.1 to 2.5.

5. THE TREASURY MANAGEMENT REPORT

5.1 Economic Background

5.1.1 The Authority uses Arlingclose Limited as its Treasury Management Adviser and part of their service is to assist the Authority to formulate a view on interest rates and the Economic Outlook.

5.1.2 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

5.1.3 The Monetary Policy Committee [MPC] increased Bank Rate in December 22 to 3.5%. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 as the Bank of England attempts to subdue inflation.

5.1.4 Consumer price inflation is expected to have peaked at around 11% in the last calendar quarter of 2022. It is forecasted to fall sharply to 1.4%, below the 2% target, in 2 years time. The most recent labour market data showed the unemployment rate was 3.7% however looking forward the unemployment rate is expected to rise to around 6.5% in 2025 in response to the deteriorating outlook for growth. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%.

5.1.5 The UK economy contracted by 0.3% between July and September 2022 and the Bank of England forecasts GDP will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is expected to continue to fall throughout 2023 and the first half of 2024.

5.1.6 Gilt yields are expected to remain broadly at the current levels over the medium-term with the 5, 10 and 20 year gilt yields expected to average around 3.5%, 3.5% and 3.85% respectively. The risks around the gilt yield forecasts are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

5.1.7 Arlingclose interest rate forecasts are shown in ***Appendix 2***.

5.2 Credit Outlook

5.2.1 Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-10 pandemic.

5.2.2 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from negative to stable.

5.2.3 The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of bank's assets, while higher interest rates provide a boost to net income and profitability. The institutions on Arlingclose's counterparty list remain well-capitalised and their advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

5.3 External Debt - Capital Borrowings and Borrowing Portfolio Strategy

5.3.1 The Authority's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3.2 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.3.3 The difference between current long-term borrowing rates and short-term investment rates has resulted in a "cost of carry" scenario, indicating that it is more advantageous to use internal funding in lieu of borrowing. The Authority, having adopted the policy of internal borrowing from the latter half of 2008/09, has an internal borrowing position of £49.5m (as at 31st March 2022) from which capital expenditure has been funded. Unless the policy is prudent, the Authority will no longer adopt the policy of internal borrowing. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

5.3.4 It is unlikely that the total borrowing requirement of £46.8m will need to be taken up in 2023/24 for the General Fund to support the capital programme, provision has been made in the budget to fund an element of this borrowing. Much of this borrowing has been deferred from previous financial years. The HRA will borrow £45.0m in 2023/24, though some of the HRA borrowing may be deferred to future years subject to the Business Plan revisions.

5.3.5 Therefore, the total potential 2023/24 borrowing requirement will be £91.8m comprising of

- 2023/24 supported borrowing approvals - £4.8m
- 2022/23 supported borrowing approvals - £4.8m
- 2021/22 supported borrowing approvals - £4.9m
- 2020/21 supported borrowing approvals - £4.9m
- 2019/20 supported borrowing approvals - £4.9m
- 2018/19 supported borrowing approvals - £4.9m
- 2017/18 supported borrowing approvals - £5.0m
- 2016/17 supported borrowing approvals - £5.0m
- 21st Century Schools LGBI- £4.2m
- 21st Century Schools prudential borrowing (Band A) - £3.4m
- HRA - £45.0m*

The LGBI borrowing is funded by WG contributions to support the 21st Century Schools Band A capital programme. The borrowing approvals relate to previous financial years whereby the borrowing had been deferred and subsequently these are now being rolled forward until the Authority raises such loans. Capital expenditure in the relevant financial year that would have been funded by the borrowing approvals was subsequently funded from internal borrowing. Retrospectively borrowing these approvals will replenish the internal borrowing.

The HRA borrowing approval includes £17.9m deferred borrowing from 2019/20. As above, this has been funded from internal borrowing and retrospectively borrowing these approvals will replenish the internal borrowing.

The HRA currently has a borrowing cap of £90m which was approved last year. This is likely to be increased as part of the 2023/24 Business Plan, which will be reported to members for approval prior to being submitted to the Welsh Government by the 31st March 2023, to cover future years borrowing.

5.3.6 Whilst PWLB interest rates have been included in Appendix 2, it is possible that loans may be taken from other sources if interest rates are more advantageous. It is suggested that the target rate for new borrowing be set at 5.70% for a 25-year period loan. However, other periods will be considered if the rates are favourable.

5.3.7 Current PWLB forecasts suggest interest rates are likely to rise during the early part of 2023. The use of internal borrowing to fund the 2023/24 capital programme or the decision to defer borrowing as set out in paragraph 5.3.4 could expose the Authority to rising interest rates thus making it expensive to borrow at a later date. The 'cost of carry' and breakeven analysis will be monitored closely and a decision taken in consultation with our Treasury Advisors at the optimum time to take out borrowing.

5.3.8 Any short-term funding would need to be in line with the 'Upper Limit for Variable Rates' as defined in the prudential indicators in ***Appendix 5*** (30% of Net Debt Outstanding) within the CIPFA "Prudential Code for Capital Expenditure in Local Government".

5.3.9 Officers, in conjunction with the Treasury Management Adviser, will continue to monitor both the prevailing rates and the market forecasts, responding to changes when necessary. The following borrowing sources will be considered by the Authority to fund short-term and long-term borrowing (and in no particular order):

- Internal reserves
- Public Works Loan Board (PWLB)
- UK Infrastructure Bank
- Local Authorities
- European Investment Bank (NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria. The project cost must also be at least €10m)
- Leasing
- Capital market bond investors
- Other commercial and not for profit sources
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- UK Municipal Bonds Agency and other special purpose companies created to enable local authority bond issues
- Any counterparty approved for investments

5.3.10 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.3.11 The Authority may borrow short-term loans (up to twelve months) to cover unexpected cashflow shortages.

5.3.12 The Authority may arrange forward starting loans during 2023/24, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period as well as mitigate against the risk of rising borrowing interest rates.

5.3.13 **Municipal Bond Agency:** The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet.

5.4 Authorised Limit for External Debt (The Authorised Limit)

5.4.1 As a consequence of 5.3.1 to 5.3.13 above**,** the Authorised Limit will be the upper limit of the Authority's borrowing, based on a realistic assessment of risks. It will be established at a level that will allow the Authority to borrow sums, in excess of those needed for normal capital expenditure purposes in the event that an exceptional situation arises and would allow for take-up of supported borrowing. It is not a limit that the Authority would expect to borrow up to on a regular basis.

5.4.2 The limit will include borrowing and other long-term liabilities such as leases, private finance schemes and deferred purchase schemes.

5.5 The Operational Boundary

5.5.1 This is based on the maximum level of external debt anticipated to be outstanding at any time in each year. It will be consistent with the assumptions made in calculating the borrowing requirements of the capital programme, but will also include an estimate of any borrowing for short term purposes, such as temporary shortfalls in incomes or to support active treasury management which would seek to take advantage of beneficial interest rate movements. It also allows for other long-term liabilities such as leases, private finance schemes and deferred purchase schemes.

5.5.2 The Operational Boundary should be set at a level which allows some flexibility but should be sufficiently below the Authorised Limit so that any breach of the operational boundary provides an early warning indicator of a potential breach of the Authorised Limit, allowing corrective action to be taken.

5.6 Interest Rate Exposure

5.6.1 The Authority's borrowing policy makes use of both fixed and variable rate opportunities. Whilst fixed rate borrowing and investment provides certainty with regard to future interest rate fluctuations, the flexibility gained by the use of variable interest rate instruments can aid performance. It allows the Treasury Manager to respond more quickly to changes in the market and to short term fluctuations in cash flow without incurring the penalties that would result from the recall of fixed rate investments.

5.7 Maturity Structure of Borrowing

5.7.1 Whilst the periods of loans are dictated by the interest rates prevalent at the time, it is important to be mindful of the maturity profile of outstanding debt. Large 'peaks' are to be avoided, as it is possible for substantial loans to reach maturity at times when prevailing interest rates are high, and conversely, when interest rates are low, windows of opportunity may be lost.

5.7.2 As a result, it is necessary to determine both an upper and lower limit for borrowings which will mature in any one year.

5.7.3 Over the course of the medium-term financial plan and future years, a number of high interest rate PWLB loans will mature resulting in a saving to the Authority as the interest rate on replacement loans are likely to be lower in comparison.

5.7.4 Historically, the Authority has favoured PWLB loans with a twenty-five year loan maturity profile, however the Authority will also consider shorter dated loans (including local authority borrowing) to fund capital expenditure. Periods in excess of 25 years should also be considered in the event interest rates become advantageous.

5.7.5 The Authority has £30m of LOBO loans (Lender's Option Borrower's option). A LOBO is called at its contract review date when the Lender is able to amend the interest rate on the loan at which point the Borrower can accept the new terms or reject and repay the loan. Any LOBOs called will be discussed with the Treasury Management Adviser prior to acceptance of any revised terms. Depending on the advice received, the Authority will consider, in the event of a repayment, the use of its cash investments balances or raising new debt to repay the loan.

5.8 Gross Debt and the Capital Financing Requirement

5.8.1 A further requirement of the revised Prudential Code is to ensure that over the medium term debt will only be for a capital purpose, the Authority will ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

5.9 Debt Rescheduling

5.9.1 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to renegotiate premature redemption terms. The Authority may take advantage of this , where this is expected to lead to an overall cost saving or reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5.10 Policy on Borrowing In advance of Need

5.10.1 Whilst the Authority is able to borrow in advance of need, it is a requirement of the Code that any instance of pre-funding must be supported by a clear business case setting out the reasons for such activity. The Authority will prepare a business case whenever there is need to borrow in advance of need.

5.11 Annual Investment Strategy

5.11.1 The CIPFA Code and the Welsh Government Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.11.2 **Current strategy (2022/23)** - At present the Authority lends to financial institutions, corporates and the UK Government using a range of financial instruments to diversify risk. These include unsecured corporate bonds; covered bonds (secured); fixed term deposits; certificate of deposits (CDs); T-Bills; the DMADF (DMO) money market funds and call accounts. The Authority has also invested in pooled funds (property funds; equity funds; multi-asset funds) and for the purpose of enhancing returns. Pooled funds will be held for minimum of five years to offset any premature exit costs. A lesser period would be considered only if it is cost neutral to the Authority.

5.11.3 **The 2023/24 Investment Strategy** will continue with the lending approach as set out in the 2022/23 Strategy.

5.11.4 This Strategy (2023/24), in line with the Welsh Government guidance, sets out the Authority's policies for (and in order of priority) the security, liquidity and yield of its investments. It will have regard to credit ratings and determine the periods for which funds may be prudently invested, whilst aiming to achieve, or better a target rate for investments of **3.50% (the base rate).** Creditworthiness approach, investment periods and the rationale for the target rate are explained in ***Appendix 3.*** The Authority's objective when investing cash is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.11.5 The strategy sets out which investments the Authority may use for the prudent management of its balances during the financial year within the areas of 'specified' and 'non-specified' investments, and provides the appropriate authorisation for the in-house investment team to manage such investments. These are listed in ***Appendix 4.***

5.11.6 The Authority will continue to diversify into more secure and/or higher yielding asset classes during 2023/24 in order to mitigate the risk stemming from regulations associated with Bank Bail-In; political uncertainty; and the risk of zero or negative Bank Rate. Short-term cash that is required for liquidity management will be deposited with local authorities (secured), Government securities (secured), money market funds (unsecured) and bank and building society investments (unsecured). Up to £60m will be made available for long-term investments.

5.11.7 In view of the ongoing volatility in the economy, and bank bail in risk, it is recommended that investments (both new and maturing) be placed with the most secure institutions as well as the most secure instruments (subject to liquidity requirements) as detailed in ***Appendix 3***. Currently this would be AAA rated covered bonds, the Government (Debt Management Account Facility and Treasury Bills and Gilts), other Local Authorities and Public Bodies, such as Police and Fire Authorities, Repos, Registered Landlords, AAA Money Market Funds, and highly credit rated banks (subject to the creditworthiness limits referred to in the appendix 3). In light of Statutory and regulatory changes adopted by the Bank of England and Regulators with respect to Bail-In, it is recommended that the Authority moves away from unsecured lending (where possible and subject to liquidity requirements) to secured investments.

5.11.8 With respect to Repo agreements, Repo/Reverse Repo is accepted as a form of securitised lending and should be based on the GMRA 2000 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral can be anyone or combination of the following securities:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- DBV (Delivery By Value)
- Corporate bonds

5.11.9 The Welsh Government maintains that the borrowing of monies for the purposes of investing or on-lending to benefit from differences in interest rates is unlawful. This Authority will not engage in such activity.

5.11.10 Under the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 regulation 12(b), the acquisition of share or loan capital in any corporate body would not be defined as capital expenditure as long as it is an investment for the purposes of the prudent management of the Authority's financial affairs. Due to the high risk of capital loss involved with such instruments, this Authority will not engage in such activity.

5.11.11 A loan or grant to another body for capital expenditure by that body is also deemed by the 2003 Regulations to be capital expenditure by the Authority. This Authority will only engage in such activity with the approval of Council.

5.11.12 In the event that any existing investment appears to be at risk of loss, the Authority will make proper revenue provision of an appropriate amount in accordance with the relevant Accounting Regulations.

5.11.13 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing. The Authority does not currently have an ESG policy which includes ESG scoring at an investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5.11.14 At the end of the financial year, the Authority will prepare a report on its investment activity as part of its Annual Treasury Management Strategy Report. This report will be supported throughout the year by quarterly monitoring reports to the Policy & Resources Scrutiny Committee (the responsible body for scrutiny of Treasury Management activities as required by the Code), which will include a review of the current strategy. A report to Council will also be prepared on a half-yearly basis.

5.11.15 It is a fundamental requirement of the Code that officers engaged in Treasury Management follow all Treasury Management policies and procedures and all activities must comply with the Annual Strategy.

5.11.16 The Welsh Government has reservations regarding borrowing in advance of need on the grounds that more money than is strictly necessary is likely to be put at risk in the investment market. As a result, Officers must report any investment made as a result of borrowing in advance and must set out the maximum period for which the funds can be prudently committed. In the event that this Authority decides to take up such borrowing, it is suggested that any deposit made with these funds be limited to a maturity period of up to twelve months and pro-rata to coincide with the profiling of capital expenditure.

5.12 Policy on Use of Financial Derivatives

5.12.1 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 Treasury Management Strategy.

5.12.2 In the absence of any legislative power, the Authority'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 risk management strategy.

5.13 Non-Treasury Investments

5.13.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the WG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. As a result of a change in PWLB terms, PWLB loans are no longer available to local authorities planning on buying investment assets primarily for yield.

5.14 Treasury Management Adviser

5.14.1 The Authority has appointed Arlingclose Limited as its external Treasury Management Adviser and receives a number of services including specific advice on investment, debt and capital finance issues; counterparty advice; economic forecasts and commentary; workshops, training and seminar events; and technical advice (including accountancy).

5.15 Treasury Management Training

5.15.1 The revised CIPFA Code, adopted by the Authority in January 2012, requires that Local Authorities must ensure that all staff and those Members with responsibility for Treasury Management receive the appropriate training. To this end the following will be observed:

- The contract for Treasury Consultancy Services includes requirements for Member and Officer training to be provided during any year.
- Officers will attend any courses/seminars that are appropriate especially where new

regulations are to be discussed.

- Officers will update Members during the financial year by way of seminars/workshops/reports.
- Officers will utilise online access to the CIPFA Treasury Forum and the CIPFA Technical Information Service.
- Relevant staff are encouraged to study professional qualifications from CIPFA; the Association of Corporate Treasurers; and other relevant organisations.

5.15.2 Officers will look to schedule Member training for Spring 2023 Further training will be undertaken as and when required.

5.16 PRUDENTIAL INDICATORS

5.17 Capital Financing Requirement

5.17.1 The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the authority does not associate borrowing with particular items or types of expenditure. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years.

5.17.2 The capital financing requirement is below the authorised borrowing limits in order to allow scope for short-term cash flow borrowing and provision for unforeseen contingencies.

5.17.3 The estimated values of Capital Financing Requirement for the period under review are shown in ***Appendix 6*** attached**.**

5.18 Prudential Indicators – "Prudence"

5.18.1 The proposed Prudential Indicators for Treasury Management Strategy are detailed in ***Appendix 5***.

5.19 Prudential Indicators – "Affordability" [*Appendices 6 and 7*]

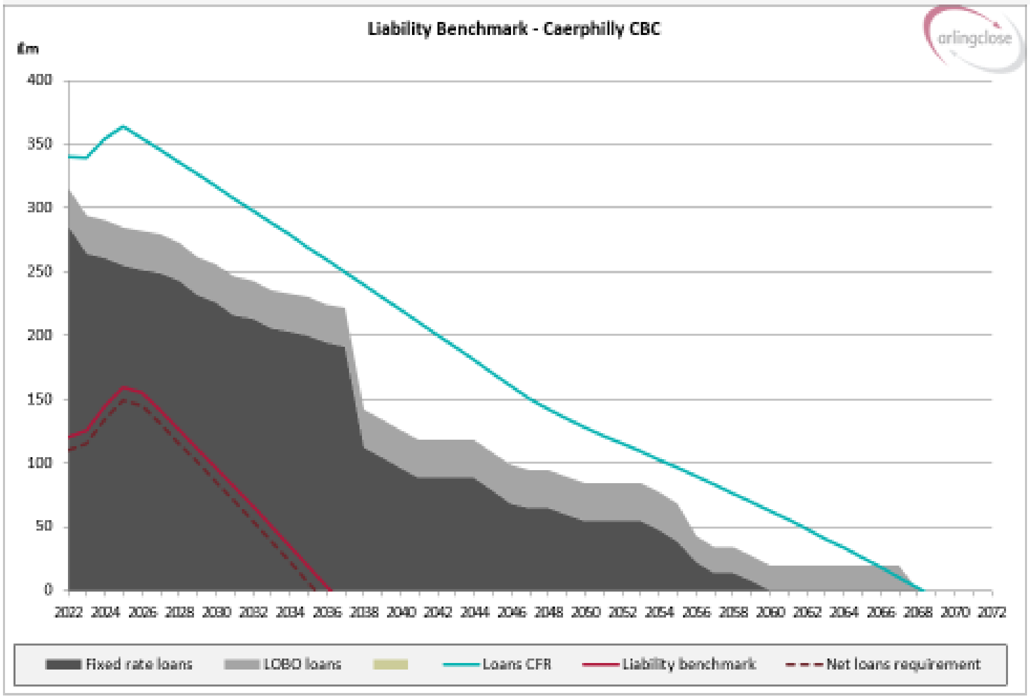
5.19.1 There is a requirement to analyse and report the capital financing costs and express those costs as a percentage of the net revenue streams of the Authority.

5.19.2 The General Fund future revenue streams are based upon the content of "the Budget Report".

5.19.3 Future revenue streams for Housing Revenue Account (H.R.A.) have been projected on the basis of a 1.5% increase applied to the rental income (using 2021/22 as a base), less an adjustment for estimated reduction in housing stock as a result of the "Right to Buy" sales.

5.20 Prudential Indicators –Liability Benchmark [Appendix 7]

5.20.1 This is a new Prudential Indicator that is required and represents the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans whilst keeping treasury investments at the minimum level to manage day-to-day cashflow.



5.21 Capital Expenditure and Funding

5.21.1 The summary Capital Expenditure and funding, as shown in ***Appendix 7*** of this report has been considered in "the Budget Report".

5.21.2 The Revenue Support Grant (RSG) provided by the Welsh Government (WG) includes an element to off-set the costs of borrowing funds for capital purposes. WG has announced supported borrowings of £4.82m in respect of the 2023/24 financial year, together with General Capital Grant funding of £4.95m.

5.21.3 For calculation purposes, it has been assumed that the supporting borrowing element of funding support and the capital grant received will return to 2022/23 levels for 2024/25 and for 2025/26. HRA provisional values for the years 2024-2026 are based on the 2022/23 allocation of the Major Repairs Allowance of £7.30m and assumed to continue at this level for future years.

5.22 Minimum Revenue Provision (MRP)

5.22.1 In accordance with the Amendment Regulations, rather than applying a defined formula, the Authority is now only required to apply a charge that is 'prudent'. A "prudent" period of time for debt repayment is defined as one which reflects the period over which the associated capital expenditure provides benefits.

5.22.2 The Amendment Regulations also introduced an additional reporting requirement. Authorities are now required to submit to full Council, for approval, an Annual MRP Statement, setting out the policy to be adopted for the year following.

5.22.3 The Authority will continue to apply the revised MRP policy that was agreed by Members on 24th January 2017. MRP on supported borrowings will be charged at 2% over 50 years. MRP on unsupported borrowings will be charged at the PWLB annuity loan rate equivalent to the life of the asset. The MRP policy is detailed in **Appendix 8**.

5.23 Other Local Issues

5.24 The Authority's Banker

5.24.1 The Authority will ensure that its day-to-day banking activity is undertaken with an investment grade bank. If the Authority's Bank is downgraded during the contract period (as specified under the Banking Services Contract) to non-investment grade, reasonable measures will need to be undertaken to mitigate the risk associated with further downgrades, and the risk of losing funds if the Bank was to default.

5.24.2 Reasonable measures will need to include (and not limited to) keeping balances to a minimum; hourly review of bank balances for the Group Accounts and subsequently transferring surplus balances to a Call Account; re-routing material income (maturing investments, grants) to a bank account held outside of the existing bank arrangement; and consideration of contingency banking arrangements with another bank should the risk be severe to the Authority's operational requirements. Cabinet will be kept informed if such risks arise. In the case of negative interest rates, monies may be held in the Authority's main bank account.

5.25 Policy on Apportioning Interest to the HRA

5.25.1 On 1st April 2015 the HRA exited the subsidy mechanism by way of the HRA buyout process. As a result, the Authority will operate a single consolidated pool of debt that will hold all debt (new and old loans), and annually recharge the HRA the interest payable on all loans using the average rate of interest as a recharge rate.

5.26 Markets in Financial Instruments Directive

5.26.1 The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

5.27 IFRS 9 Classification

5.27.1 Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost. Pooled fund investments will be elected to be carried at 'Fair Value through Other Comprehensive Income (FVOCI).

6. ASSUMPTIONS

6.1 The details set out in the report are based on interest rate forecasts provided by the Authority's Treasury Management Adviser.

6.2 It is currently assumed that investment cash balances remain at a minimum of £100m throughout 2023/24 in order to deliver the investment returns stated within this report.

6.3 It has been assumed that the Authority will fund a proportion of its capital programme through supported borrowing.

6.4 It has been assumed that the HRA's borrowing needs are based on the current Business Plan at the time of writing this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

7.1 The Treasury Management strategy report is a requirement of the Local Government Act and provides a high-level framework in which the Council can operate. This does not impact on any individuals or any protected characteristic groups as defined in the Council's Strategic Equality Plan 2020-2024 and as a result an Integrated Impact Assessment is not required

8. FINANCIAL IMPLICATIONS

8.1 As detailed throughout the report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications.

10. CONSULTATION

10.1 The report was presented to the Policy and Resources Committee on 23 January 2023 for consideration. The Scrutiny Committee made the following comments and recommendation to Council: -

- A Member queried the large borrowing figures stated in the report, and sought clarification on this, referring to the amount of money currently in reserves. Members were advised that the Council was not currently borrowing, but that approval for borrowing in the future if needed, had been agreed by Council.

- A Member sought clarification on whether Town and Community Councils could obtain loans that could be used as match funding. Members were advised that loans could be applied for from the PWLB, and information would be circulated to Members following the meeting.

- A Member queried whether there was any charge applicable for internal borrowing within the Council. Members were advised that the cost of internal borrowing is not assigned to particular departments for the General Fund.

- A Member sought further clarification on borrowing at 5.7%, and the money available for long term investments. Members were advised that the Council was unlikely to borrow at 5.7% and is not currently borrowing. Members were also informed that the Council has currently invested £21 million in long- term investments at circa 4% return, and that our total return on investments for 2022/23 is expected to be £2.3 million. There are also no plans to pay off any loans at the present time.

- Having considered the content of the report it was moved and seconded that the recommendations be forwarded to Council for approval. By way of a roll call, (and in noting there were 12 for, 0 against and 1 abstention) this was agreed by the majority present.

10.2 No external consultation is required for the purposes of the report. However, advice has been sought from the Authority's current Treasury Management Adviser.

11. STATUTORY POWER

11.1 Local Government Act 1972

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Consultees: Stephen Harris – Head of Financial Service and S151 Officer
Christina Harrhy – Chief Executive
Andrew Southcombe – Finance Manager, Corporate Finance
Robert Tranter- Head of Legal Services and Monitoring Officer
Cllr E. Stenner – Cabinet Member for Finance and Performance

Appendices:

Appendix 1	Local Government Investments - Definitions
Appendix 2	Interest Rates – Forecasts/Indicative
Appendix 3	Credit Policy, Investment Ratings, Periods and Targets
Appendix 4	Investments to be used and "in house" authorisations
Appendix 5	Treasury Management Strategy Indicators
Appendix 6	Prudential Indicators – Capital Finance
Appendix 7	Capital Expenditure and Funding
Appendix 8	MRP Policy