ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**EXECUTIVE COMMITTEE**
Date:	**2 MARCH 2023**
Subject:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, PORTFOIO HOLDER FOR FINANCE, CORPORATE BUSINESS AND CUSTOMER EXPERIENCE**
Head of Service / Director:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER**
Report Author: Tel: E-mail:	**JEMMA ROBINSON** **01248 752675** **JemmaRobinson@ynysmon.llyw.cymru**
Local Members:	**n/a**

A –Recommendation/s and reason/s

- This report is presented to ensure that the Council is implementing best practice in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management. The code recommends that, prior to being presented for adoption, Members should scrutinise the Treasury Management Strategy Statement (which includes the Annual Investment Strategy, the annual MRP Policy Statement, the annual Treasury Management Policy Statement and the Treasury Management Scheme of Delegation). This Authority's scheme of delegation charges the Governance & Audit Committee with this function.

- The CIPFA Code of Practice on Treasury Management (Section 7) recommends that the Authority's Treasury Management Practices (TMPs) should be approved, documented and monitored. It goes on to state that the nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision, and recognises that in some organisations this may be delegated to the responsible officer. In all cases, it should be subjected to scrutiny by the responsible body following recommendations by the responsible officer. This Authority has produced documented TMPs, and were approved by the Governance & Audit Committee on 11 February 2020.

- In terms of updates to the Treasury Management Strategy Statement, there has been an amendment to the Minimum Reserve Provision (MRP) policy since the 2022/23 Statement.

- Under Code of Practice, it is a requirement that the Council prepares a Capital Strategy, which takes a longer-term view as to the capital investment that is required and how that investment will be funded. The Executive will approve this Strategy, along with other budget resolutions. This Treasury Management Strategy sits below the Capital Strategy, and considers the impact of that strategy on the Council's borrowing and investments. It sets out how both strategies will be undertaken in a controlled way, which is in line with a suitable level of risk that the Council wishes to take, bearing in mind the guidance set out in the CIPFA Code of Practice on Treasury Management. Under the revised Code, in December 2021, Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within this TMSS report.

1. Recommendations

- To consider the Treasury Management Strategy for 2023/24 and to make recommendations or note comments for consideration by the full Council.

B – What other options did you consider and why did you reject them and/or opt for this option?

n/a

C – Why is this a decision for the Executive?

- It is a designated Executive function. In accordance with the Scheme of Delegation, this report was scrutinised by the Governance and Audit Committee on 7 February 2023. The report will be presented to the full Council once it has been accepted by this Committee.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?

N/a

DD – Assessing the potential impact (if relevant)

1	**How does this decision impact on our long term needs as an Island**	
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how:-**	
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	

E – Who did you consult?		**What did they say?**
1	**Chief Executive / Leadership Team (LT)** (mandatory)	
2	**Finance / Section 151**(mandatory)	n/a – this is the Section 151 Officer's report.
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Procurement**	
8	**Scrutiny**	
9	**Local Members**	
10	**Other**	The Governance and Audit Committee resolved to:- To accept the Treasury Management Strategy Statement for 2023/24, and to recommend it to the Executive without comment.

F - Appendices:

1. Treasury Management Policy Statement
2. Treasury Management Key Principles
3. Economic background
4. Interest rate forecasts
5. Loan maturity profile
6. MRP Policy Statement
7. Specified and non-specified investments
8. Counterparty criteria
9. Approved countries for investments
10. Treasury management scheme of delegation and the role of the Section 151 Officer
11. Prudential and Treasury Indicators
12. Explanation of Prudential and Treasury Indicators
13. Glossary of, and information on, Prudential & Treasury Management indicators

FF - Background papers (please contact the author of the Report for any further information):

- 2022/23 Treasury Management Strategy Statement, approved by the full Council on 10 March 2022;
- 2021/22 Treasury Management Outturn Report, approved by the full Council on 26 January 2023;
- 2021/22 Capital Outturn Report, presented to this Committee on 28 June 2022;
- Capital Budget Monitoring Quarter 2 2022/23, presented to this Committee on 29 November 2022; and
- 2022/23 Treasury Management Mid Year Report, presented to the Governance and Audit Committee on 8 December 2022.

ANNEX A

TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2023/24

1. INTRODUCTION

1.1. CIPFA published the revised codes on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these codes of Practice when it prepares the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy, and also related reports during the financial year, which are taken to full Council for approval.

1.2. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes - Treasury Management, Service Delivery and Commercial return. As this Treasury Management Strategy Statement and Annual Investment Strategy deals with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

1.3. The revised Treasury Management Code will require the Council to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;
- Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;
- Reporting to members is to be done quarterly. Specifically, the Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly.
- Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1).

2. BACKGROUND

2.1. CIPFA defines treasury management as:-

"*The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*."

The Treasury Management Policy Statement defines the policies and objectives of the treasury management activities (see **Appendix 1**).

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

2.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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

3. CIPFA CODE OF PRACTICE ON TREASURY MANAGEMENT

3.1. The CIPFA Code of Practice on Treasury Management requires the Council to prepare and approve the following documents:-

- A Capital Strategy Statement which sets out a high level, long term overview of capital expenditure and financing, along with details on any associated risks and how they will be managed, as well as the implications for future financial sustainability. The aim of this capital strategy is to ensure that all elected Members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- A Treasury Management Strategy which sets out the Council's strategy in terms of borrowing and investment which follows on from the Capital Strategy, sets out the constraints on borrowing, determines a set of prudential indicators and determines the Council's risk appetite and strategy in respect of investments. It essentially covers two areas: capital issues and treasury management issues. 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.

3.2. The key principles of the CIPFA Treasury Management Code of Practice are set out in **Appendix 2**.

4. EXTERNAL CONTEXT

4.1. Setting the Treasury Management Strategy cannot be undertaken in isolation, and consideration must be given to the economic situation as this has an impact on investment interest rates, the cost of borrowing and the financial strength of counterparties. A full summary of the economic outlook is set out in **Appendix 3**, but the main points to consider are as follows:-

- Bank Rate expected to peak at 4.5% by May 2023.
- Investing in 2023/24, is therefore likely to be conducted, first, in a rising interest rate environment, but also - potentially - a falling interest rate environment at the back-end of the financial year, depending on how quickly inflation falls back and how growth performs.

4.2. Having considered the available information and having considered the advice from the Council's Treasury Management Advisors, the following table sets out the Council's view on interest rate levels for the following 3 years:-

Table 1

Prospects for Interest Rates to December 2025

Annual Average	**Bank Rate (%)**	**PWLB Borrowing Rates (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
December 2022	3.50	4.20	4.60	4.30
March 2023	4.25	4.20	4.60	4.30
June 2023	4.50	4.20	4.60	4.30
September 2023	4.50	4.10	4.50	4.20
December 2023	4.50	4.00	4.40	4.10
March 2024	4.00	3.90	4.20	3.90
June 2024	3.75	3.80	4.10	3.80
September 2024	3.50	3.60	4.00	3.70
December 2024	3.25	3.50	3.90	3.60
March 2025	3.00	3.40	3.70	3.50
June 2025	2.75	3.30	3.60	3.30
September 2025	2.50	3.20	3.50	3.20
December 2025	2.50	3.10	3.50	3.20

Information provided by Link Group, Treasury Solutions is attached as **Appendix 4**.

4.3. The current forecast, shown above, includes a forecast for Bank Rate to reach 4.5% in Q2 2023. Given the forecast for bank base rates, the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):-

2023/24: 4.40%;
2024/25: 3.30%;
2025/26: 2.60%;
2026/27: 2.50%;
Long term later years: 2.80%.

5. THE COUNCIL'S CURRENT POSITION

5.1. Borrowing

5.1.1. The Council's current external borrowing is set out in Table 2 below. A full analysis is attached as **Appendix 5**.

Table 2

Summary of the Council's Current Outstanding Loans

PWLB LOANS					
	PWLB / PWLB Maturity	**PWLB EIP/ Annuity**	**Market Loans**	**PWLB Variable**	**Total Maturing**
Loan Outstanding	£119,400	£178k	£0k	£0k	£119,578k
Average life (years)	30.82	4.06	0.00	0.00	30.78
Average rate (%)	4.53	9.42	0.00	0.00	4.54

OTHER LOANS							
	Salix Loan 1	**Salix Loan 2**	**Salix Loan 3**	**Salix Loan 4**	**Salix Loan 5**	**Salix Loan 6**	**TOTAL**
Outstanding Balance	£24k	£137k	£382k	£172k	£1,984k	£400k	**£3,099k**
Repayment Date	2024/25	2025/26	2028/29	2029/30	2031/32	2035/36	
Interest rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	

5.2. Investments

5.2.1 Any surplus cash is currently invested in short term deposit accounts, call accounts and with other UK local authorities. The balance invested in these accounts changes daily (balance as at 31 December 2022 was £46.2m).

5.2.2 Under the current treasury management strategy, the Council invests surplus cash ensuring, first of all, the security of the deposit, secondly the liquidity of the deposit and, finally, the return on the investment. In practice, in order to ensure the first and second principles, the rate of return on investments is sacrificed, and the current average return on investments is 1.11% (as at 31 December 2022).

6. IMPACT OF FUTURE PLANS ON BORROWING

6.1. Capital expenditure is partly funded from borrowing and the capital programme, as set out in the Capital Strategy, is set out in Table 3 below**:-**

Table 3
Proposed Capital Expenditure Programme 2023/24 – 2025/26

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Non - HRA	**15,110**	**8,450**	**4,959**
HRA	**31,847**	**34,351**	**27,659**
Commercial Activities / Non Financial Investment	**0**	**0**	**0**
TOTAL EXPENDITURE	**46,957**	**42,801**	**32,618**
Financed By			
Capital Grants	13,352	5,561	5,071
Capital Receipts	500	100	100
General Reserves	0	0	0
HRA Revenue Reserve	6,987	6,391	5,999
Balance Funded from Borrowing	26,118	30,749	21,448

6.2. An important factor to consider is the impact of borrowing on the Council's Capital Financing Requirement (CFR). The CFR is the measure of the Council's underlying borrowing need. Borrowing is not limited to external borrowing from PWLB but also the use of the Council's own cash balances (internal borrowing) which have been used to fund capital expenditure.

6.3. Capital expenditure will increase the CFR but only by the sum that is not funded from grants, capital receipts, reserves or revenue. The CFR will also reduce annually by the sum of the Minimum Revenue Provision (MRP) which is charged to revenue. The level of the CFR is an important measure to ensure that the Council does not commit itself to unaffordable levels of borrowing.

6.4. In order to ensure that the Council has sufficient funds available to repay debt as it falls due, the Council is required to make a charge to the revenue account each year, and this charge is known as the Minimum Revenue Provision (MRP). Regulations require that the Council approves a MRP statement in advance of each financial year. The policy for 2023/24 is set out in **Appendix 6**. The Council's MRP policy was substantially revised in 2018, and again for the financial year beginning 01 April 2022. By making the MRP charge each year, the Council's cash balances are replenished and that, in turn, reduces the level of internal borrowing.

6.5. In 2018, the Council revised its MRP policy and adopted the Equal Instalment Asset Life method to calculate its MRP charge for both its supported borrowing and unsupported borrowing. The revised policy from 01 April 2022 adopts an annuity method, following a similar method to a standard repayment mortgage, where the combined repayment sum of principal repayment and interest remains constant and as a result the amount of principal repaid in the early years is low and increases over time. Therefore, under the annuity method the MRP charge is low in the initial years and increases over time.

6.6. The Council may choose to pay more MRP in any given year. These overpayments of MRP (which in the Council's case, are to ensure enough cash for loan repayments), can, if needed, be reclaimed in later years. Up until 31 March 2022, the total overpayments were £268k, and related specifically to the Salix loans where the MRP charged to the revenue account has been calculated on the basis of the life of the loan rather than on the life of the asset which was funded by the loan. This ensures that the Council has sufficient cash to repay the loans when they become due for repayment.

6.7. The impact of the Council's capital expenditure plans and the MRP charge on the CFR and level of external and internal borrowing is shown in Table 4 below:-

Table 4
Capital Financing Requirement and Borrowing 2022/23 to 2025/26

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Capital Financing Requirement (CFR)				
Opening Balance of CFR	**137,804**	**149,409**	**173,905**	**202,669**
Capital Expenditure	46,153	46,957	42,801	32,618
External Capital Grants	(18,331)	(13,352)	(5,561)	(5,071)
Capital Receipts	(830)	(500)	(100)	(100)
Revenue Contribution & Reserves	(13,933)	(6,987)	(6,391)	(5,999)
Minimum Revenue Provision	(1,454)	(1,622)	(1,985)	(2,103)
CLOSING BALANCE OF CFR	**149,409**	**173,905**	**202,669**	**222,014**
Opening Balance of External Borrowing	**125,348**	**135,734**	**159,610**	**189,713**
Borrowing to Fund Capital Expenditure	13,059	26,118	30,749	21,448
Borrowing to Fund Loan Repayments	0	0	0	0
Borrowing to Replace Internal Borrowing	0	0	0	0
Loan Repayments	(2,673)	(2,242)	(646)	(639)
Closing Balance of External Borrowing	**135,734**	**159,610**	**189,713**	**210,522**
Internal Borrowing				
Opening Balance of Internal Borrowing	**12,456**	**13,675**	**14,295**	**12,956**
Replacement of Internal Borrowing	0	0	0	0
Funding Loan Repayments from External Borrowing	0	0	0	0
External Loan Repayments	2,673	2,242	646	639
Borrowing to Fund Capital Expenditure	0	0	0	0
Minimum Revenue Provision	(1,454)	(1,622)	(1,985)	(2,103)
Closing Balance of Internal Borrowing	**13,675**	**14,295**	**12,956**	**11,492**
TOTAL BORROWING	**149,409**	**173,905**	**202,669**	**222,014**

7. BORROWING STRATEGY

7.1. The Council 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 Council'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 increases over the remainder of 2022 and the first half of 2023. Table 4 indicates that £13.675m may need to be externally borrowed if urgently required. This is the amount of Council reserves and balances used in the past to fund the capital programme instead of taking out borrowing.

7.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:-

- If it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered if it is cost effective to do so.
- If it was felt that there was a significant risk of a much sharper RISE in long and short term 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 will be reported to this Committee at the next available opportunity

7.3. External v Internal Borrowing

7.3.1 Current conditions indicate a need for a flexible approach to the choice between internal and external borrowing. However, it remains the case that there are certain limitations to externalise borrowing, such as:-

- The policy can cause exposure to credit risk (e.g. risk of the bank defaulting on the debt), so this aspect must be very carefully managed;
- Careful on-going consideration needs to be given to the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

7.3.2 In favour of internalisation, over the medium term, investment rates are expected to continue to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

7.3.3 However, short term savings by avoiding new long term external borrowing in 2023/24 must also be weighed against the potential for incurring additional long term extra costs, by delaying unavoidable new external borrowing, as PWLB long term rates are now higher. Additionally, the cash flow implications of internalising borrowing require regular review and will limit the potential extent of internalising borrowing. Long term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve, and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

7.4. Borrowing in Advance of Need

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

7.4.2 In determining whether borrowing will be undertaken in advance of need, the Council will:-

1. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
2. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets, have been considered;
3. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
4. consider the advantages and disadvantages of alternative forms of funding;
5. consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
6. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

7.4.3 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.

7.5. Debt Rescheduling

7.5.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

7.5.2 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).

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

7.5.4 All rescheduling will be reported to the Governance & Audit Committee at the earliest practicable meeting following its action.

7.6. Debt Profile

7.6.1. As can be seen from **Appendix 5**, the existing borrowing is due to be repaid in various years up to 2068/69. As part of any decision on future borrowing, the Council will aim to ensure that the repayment date is arranged so as to smooth out repayments as far as possible, but priority will be given to the interest rate payable when determining the type of loan (maturity or annuity) and the length of the loan.

8. INVESTMENT STRATEGY

8.1. In-house funds: 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 is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns. 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.

8.2. Management of Risk

8.2.1 CIPFA has extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the Treasury Management Team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy (a separate report).

8.2.2 The Council's investment policy has regard to the following:-

- Welsh Government's 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.

8.2.3 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 maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

8.2.4 The above guidance from the Welsh Government and CIPFA 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:-

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information**: 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 advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

3. **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.

4. This Council has defined the list of **types of investment instruments** that the Treasury Management Team are authorised to use. There are two lists in **Appendix 7** under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year and/or are more complex instruments which require greater consideration by Members and officers before being authorised for use.

5. **Non-specified investments limit**. The Council has determined that it will limit the maximum total exposure to non-specified investments by ensuring that no non-specific investment is undertaken without the prior consent of the Council. The Council does not hold any non-specified investments, nor does it intend to during 2023/24 (see **Appendix 7**).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table as set out in the Creditworthiness section of this strategy.

7. **Transaction limits** are set for each type of investment in **Appendix 8**.

8. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see **Appendix 11**).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see **Appendix 9**).

10. This Council has engaged **external consultants** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2022/23 under **IFRS 9,** this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Welsh Government has passed a statutory override to allow Welsh local authorities time to adjust their portfolio of all pooled investments by delaying implementation of IFRS 9 for five years until 31.03.23. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by Government.)

8.3. Creditworthiness Policy

8.3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:-

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

8.3.2 The Section 151 Officer will maintain a counterparty list in compliance with the criteria set out in **Appendix 8** and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

8.3.3 Credit rating information is supplied the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

8.3.4 As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

8.3.5 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads from which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council, at the discretion of the Section 151 Officer, to assist in determining the duration for investments. The Council will, therefore, normally use counterparties within the following durational bands:-

Yellow:	5 years *
Dark pink:	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink:	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple:	2 years
Blue:	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange:	1 year
Red:	6 months
Green:	100 days
No colour:	not to be used

8.3.6 The Link creditworthiness service uses a wider array of information than just primary ratings and, by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

8.3.7 Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

8.3.8 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings, the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

8.3.9 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information and information on any external support for banks to help support its decision making process.

8.3.10 Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, the council will not set a minimum rating for the UK.

8.3.11 Although bank CDS prices (these are market indicators of credit risk),), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

8.4. Country Limits

8.4.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 9**. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

9. GOVERNANCE AND CONTROL

9.1. The Prudential Code reflects a move towards self regulation for local authorities and effective corporate governance is one of the key elements to the successful implementation of the Code.

9.2. Corporate Governance includes the following elements:-

- A formal role for the Section 151 Officer;
- Setting and monitoring of Prudential and Treasury Indicators;
- A scheme of delegation and a process of formal approval;
- Reporting on Treasury Management matters to Members.

9.3. Role of the Section 151 Officer and Members

9.3.1 The Section 151 Officer is responsible for ensuring that matters relating to Treasury Management and Capital Financing are taken into account and reported to the Executive / full Council for consideration and that procedures are established to monitor performance.

9.3.2 The Section 151 Officer must ensure that prudential indicators are set and monitored in order to demonstrate the legislative requirement that the Council's financial plans are affordable.

9.3.3 Members also play an important role in not just authorising the relevant decisions but also in scrutinising treasury management processes, decisions and performance. In order to undertake this role, the CIPFA Treasury Management Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. In order to support the scrutiny role of the members of the Governance & Audit Committee, the Committee's members received training in treasury management, delivered by the appointed treasury management consultants on 14 September 2022. Further training will be arranged when required. The training needs of treasury management officers are regularly reviewed and addressed.

9.3.4 The CIPFA Treasury Management Code states that organisations 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 Council 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 board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (a 'self-assessment by members responsible for the scrutiny of treasury management' is available from the CIPFA website to download).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

9.3.5 A formal record of the training received by officers central to the Treasury function will be maintained by the Performance & Support Team Leader. Similarly, a formal record of the treasury management / capital finance training received by Members will also be maintained by the Head of Democratic Services.

9.3.6 The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in **Appendix 10**.

9.4. Treasury Management Advice

9.4.1 The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors. In accordance with procurement regulations, the Council retendered this service during early 2021 for the period 1 April 2021 to 31 March 2024 with an option to extend for two years, with Link Group, Treasury Solutions being the successful tender.

9.4.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. Final responsibility for treasury management decisions remains with the Council.

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

9.5. Prudential and Treasury Indicators

9.5.1. The Prudential and Treasury Indicators set out in **Appendix 11** cover affordability, prudence and sets out limits for capital expenditure, external debt, the liability benchmark and the maturity structure of borrowing.. It is for the Council to set the Prudential Indicators and it is important to not just consider the indicators for each individual year in isolation, but also to consider the past performance and the future forecasts. A fuller explanation of the purpose of each indicator is set out in **Appendix 12.**

9.6. Reporting

9.6.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

9.6.2 Prudential and Treasury Management Indicators and Treasury Strategy - the first and most important report (this report) is forward looking and covers:-

- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury management indicators;
- an Investment Strategy (the parameters on how investments are to be managed);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- a Treasury Management Policy Statement (definition of the policies and objectives of the treasury management function); and
- the capital plans (including the associated prudential indicators).

9.6.3 A Mid-Year Treasury Management Report - this will update Members with the progress of the capital position, amending prudential indicators as necessary and whether the treasury strategy is meeting its objectives or whether any policies require revision.

9.6.4 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.

9.6.5 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance & Audit Committee.

9.6.6 In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Executive Committee.

APPENDIX 1

Treasury Management Policy Statement

1. CIPFA defines its treasury management activities as: "The management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks''.

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

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

APPENDIX 2

The CIPFA Treasury Management in the Public Services: Code of Practice

The key principles of CIPFA's ***Treasury Management in the Public Services: Code of Practice (2021 Edition)***, as described in Section 4 of that Code are as follows:-

Key Principle 1:
Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2:
Their policies and practices should make clear that the effective management and control of risks are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3:
They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that, within the context of effective risk management, their treasury management policies and practices should reflect this.

The Code then goes on to say that:-

"In framing these recommendations, CIPFA acknowledges the difficulties of striving for effective risk management and control, whilst at the same time pursuing value for money. This code does not seek to be prescriptive about how this issue should be handled, particularly since it covers such a wide variety of organisations. However, where appropriate, the sector specific guidance notes give suitable advice. CIPFA recognises that no two organisations in the public services are likely to tackle this issue in precisely the same manner but success in this area of treasury management is likely to be viewed, especially in value for money terms, as an indicator of a strongly performing treasury management function."

"It is CIPFA's view that throughout the public services the priority is to protect capital rather than to maximise return. The avoidance of all risk is neither appropriate nor possible. However, a balance must be struck with a keen responsibility for public money."

Accordingly, the Authority will adopt, as part of the standing orders, the following four clauses:-

1. The Authority will create and maintain, as the cornerstones for effective treasury management:-

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and

- suitable treasury management practices (TMPs) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Authority. Such amendments will not result in the Authority materially deviating from the Code's key principles.

2. The County Council, Executive Committee and the Governance & Audit Committee will receive reports on the Authority's treasury management policies, practices and activities, including: an annual strategy and plan in advance of the year, a mid-year review report and an annual report after its close, in the form prescribed in the TMPs.

3. The County Council/Executive Committee are responsible for the implementation of the Authority's treasury management policies and practices in accordance with the Treasury Management Scheme of Delegation. The Section 151 Officer is responsible for the execution and administration of treasury management decisions, who will act in accordance with the Authority's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. The Authority nominates the Governance & Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

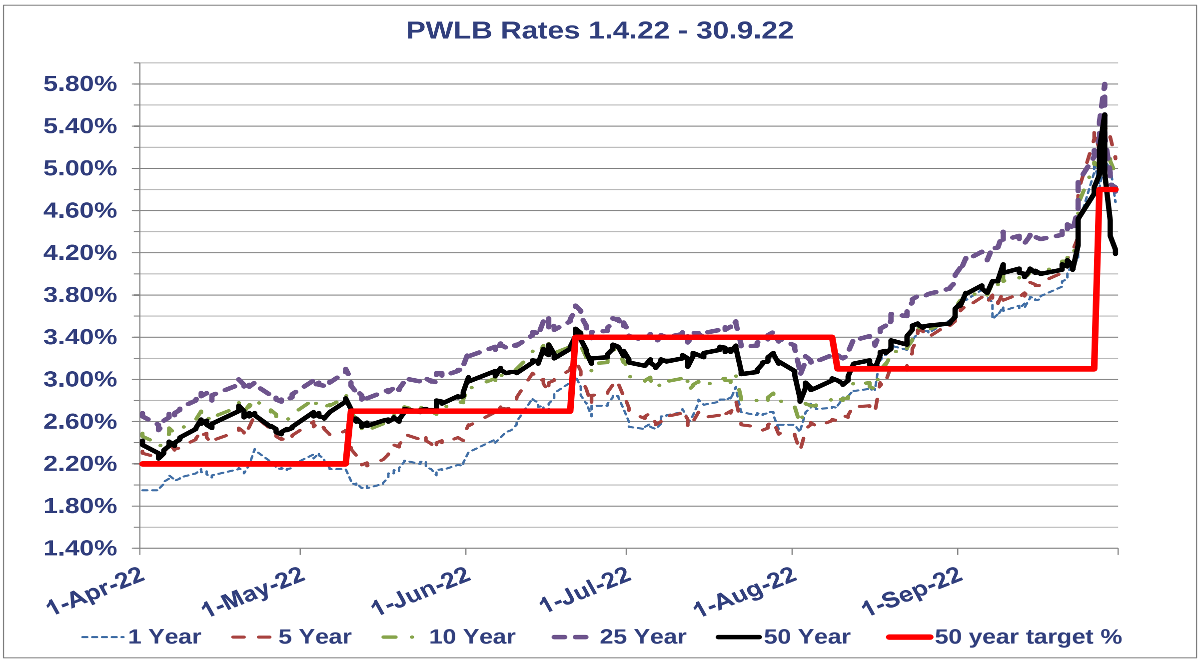
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.22. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Group, Treasury Solutions

ATODIAD 4 / APPENDIX 4

Rhagolygon Graddfeydd Llog 2022/2025

Interest Rate Forecasts 2022/2025

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Rhan o gyngor dderbyniwyd gan / An extract from advice received from: Link Group

Additional notes by Link on this forecast table: -

Our central forecast for interest rates was updated on 19 December and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently, but is expected to reach a peak of 4.5% in H1 2023.

Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.
In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy: -

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

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

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

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

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

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Government** acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

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

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields consequently.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

ATODIAD 5 /APPENDIX 5

DADANSODDIAD BENTHYCIADAU PWLB YN AEDDFEDU 2023/24 YMLAEN / PWLB LOANS MATURITY ANALYSIS 2023/24 ONWARDS						
	Aeddefedu PWLB Maturity £'000	Blwydd-dal PWLB EIP/ Annuity £'000	Benthyciadau Marchnad/ Market Loans £'000	Amrywiol/ PWLB Variable £'000	Cyfanswm yn Aeddfedu/ Total Maturing £'000	%Yn Aeddfedu o'r Cyfran yn sefyll/ Maturing of Total Outstanding %
2023/24	1,854	16	0	0	1,870	1.6
2024/25	0	18	0	0	18	0.0
2025/26	0	20	0	0	20	0.0
2026/27	1,381	21	0	0	1,402	1.2
2027/28	2,165	24	0	0	2,189	1.8
2028/29	262	26	0	0	288	0.2
2029/30	1,539	21	0	0	1,560	1.3
2030/31	451	15	0	0	466	0.4
2031/32	1,941	9	0	0	1,950	1.6
2032/33	315	8	0	0	323	0.3
2033/34	637	0	0	0	637	0.5
2034/35	624	0	0	0	624	0.5
2035/36	611	0	0	0	611	0.5
2036/37	599	0	0	0	599	0.5
2037/38	587	0	0	0	587	0.5
2038/39	225	0	0	0	225	0.2
2039/40	5,000	0	0	0	5,000	4.2
2040/41	3,500	0	0	0	3,500	2.9
2042/43	1,000	0	0	0	1,000	0.8
2043/44	1,020	0	0	0	1,020	0.9
2044/45	1,010	0	0	0	1,010	0.8
2045/46	11,464	0	0	0	11,464	9.6
2050/51	2,000	0	0	0	2,000	1.7
2052/53	28,238	0	0	0	28,238	23.6
2054/55	3,000	0	0	0	3,000	2.5
2055/56	3,500	0	0	0	3,500	2.9
2056/57	5,000	0	0	0	5,000	4.2
2057/58	8,513	0	0	0	8,513	7.1
2059/60	1,763	0	0	0	1,763	1.5
2064/65	10,000	0	0	0	10,000	8.4
2066/67	6,200	0	0	0	6,200	5.2
2068/69	15,000	0	0	0	15,000	12.5
	119,400	**178**	**0**	**0**	**119,578**	**100.0**
Cyfartaledd bywyd (blynyddoedd)/ Average life (years	30.82	4.06	0.00	0.00	30.78	
Cyfartaledd graddfa (%)/ Average rate (%)	4.53	9.42	0.00	0.00	4.54	

PROFFIL AD-DALU BENTHYCIADAU ERAILL 2023/24 YMLAEN / OTHER LOANS REPAYMENT PROFILE 2023/24 ONWARDS							
	Benthyciad Salix Loan 1 £'000	**Benthyciad Salix Loan 2 £'000**	**Benthyciad Salix Loan 3 £'000**	**Benthyciad Salix Loan £'000**	**Benthyciad Salix Loan 5 £'000**	**Benthyciad Salix Loan 6 £'000**	**Cyfanswm / Total £'000**
2023/24	16	46	64	26	220	0	372
2024/25	8	45	64	26	220	264	628
2025/26	0	45	64	26	220	264	619
2026/27	0	0	64	27	220	264	575
2027/28	0	0	63	27	220	264	574
2028/29	0	0	63	27	221	264	575
2029/30	0	0	0	13	221	265	499
2030/31	0	0	0	0	221	265	486
2031/32	0	0	0	0	221	265	486
2032/33						265	265
2033/24						265	265
2034/35						265	265
2035/36						265	265
Cyfanswm / Total	24	137	382	172	1,984	3,175[1]	5,874

[1] Total amount to be repaid differs from the total amount outstanding in Table 5.1.1 due to only having received £400k to date, however £3,175k will be received.

APPENDIX 6

Minimum Revenue Provision (MRP) Policy Statement 2023/24

The Council is required to pay off an element of the accumulated Council Fund and HRA 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 Welsh Government statutory guidance requires the Council to approve a MRP Statement in advance of each year. The guidance also states "if it is ever proposed to vary the terms of the original statement during the year, a revised statement should be put to the Council at that time". A variety of options is provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:-

From 1st April 2022, for all capital expenditure funded by supported and unsupported borrowing (CFR), MRP will be charged on the asset life - annuity method at the Council's average interest rate on all of its loans at the end of each relevant year-end.

MRP charges based on the asset life – annuity method may not be charged until the year the asset becomes operational. The Section 151 Officer may postpone the MRP charge until the financial year following the one in which the asset becomes operational. The estimated asset life of the asset would be determined in the year the MRP commences and would not change over the life of the asset. The estimated life periods will be set by the Section 151 Officer, based upon advice received from the relevant officers and will have regard to Statutory requirements and Welsh Government guidance in relation to MRP and asset life. Where land is purchased, the asset life will be based on the asset life of the asset placed on the land, which in the majority of cases will be 50 years, in line with the asset life for buildings.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. In addition, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

The Housing Revenue Account (HRA) MRP charge for its share of supported and unsupported borrowing, will also be based on the asset life – annuity method at the Council's average interest rate on its loans at the relevant year end.

Any repayments included in annual PFI or finance leases are applied as MRP and will be consistent with the asset life – annuity basis over the life of the lease or PFI scheme.

APPENDIX 7

Specified and Non-Specified Investments

The Welsh Government ‘Guidance on Local Government Investments’ (Effective from 1 April 2010) provides the definition of specified and non-specified investments.

Paragraph 5.1 of the ‘Guidance’ states that an investment is specified if all of the following apply:-

(a) the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling; and

(b) the investment is not a long-term investment (*); and

(c) 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 [SI 3239 as amended]; and

(ch) 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:

- **(i)** the United Kingdom Government;
- **(ii)** 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;
- **(iii)** a parish or community council.

The ‘Guidance’ also states that any investment not meeting the definition of paragraph 5.1 is classified as a non-specified investment.

During 2023/24 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 (such as company shares). Non-specified investments will therefore be limited to (i) long-term investments; and (ii) deposits with the Council’s own banker for transactional purposes if it fails to meet the basic credit criteria; in this instance balances will be minimised as far as is possible

The table in Appendix 8 set out the investment criteria and limits for the categories of investments intended for use during 2023/24 and, therefore, form the basis for the approved lending list.

Any proposed revisions or amendments during the year to the categories of specified and non-specified investments to be used and / or to the associated credit rating criteria / investment limits will be subject to prior approval by the County Council.

***** *Section 2.4 of the ‘Guidance’ defines a long term investment as ‘’any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.’’*

****** *For the purposes of high credit quality the ‘Guidance’ states that ‘’for the purposes of paragraph 5.1(d), Welsh ministers recommend that the Strategy should define high credit quality (and where this definition refers to credit ratings, paragraph 6.1 (***) is relevant).’*

*** *Paragraph 6.1 of the ‘Guidance’ recommends that ‘’the Strategy should set out the authority’s approach to assessing the risk of loss of investments, making clear in particular:*

- ***(a)*** *to what extent, if any, risk assessment is based upon credit ratings issued by one or more credit rating agencies;*
- ***(b)*** *where credit ratings are used, how frequently credit ratings are monitored and what action is to be taken when ratings change; and*
- ***(c)*** *what other sources of information on credit risk are used, additional to or instead of credit ratings.’’*

The table in Appendix 8 of this strategy sets out what this Council defines as high credit quality and the associated investment criteria and limits and section 7.3 of this strategy sets out the Council’s creditworthiness approach.

APPENDIX 8

Counterparty Criteria

Category	Short Term Credit Rating (Fitch)	Short Term Credit Rating (Moody's)	Short Term Credit Rating (Standard & Poor's)	Long Term Credit Rating (Fitch)	Long Term Credit Rating (Moody's)	Long Term Credit Rating (Standard & Poor's)	Cash Limit	Time Limit
Bank and Building Societies (not nationalised or part nationalised)	**F1+**	**P-1**	**A-1+**	**AAA**	**Aaa**	**AAA**	**£10m**	**5 years**
	F1+	**P-1**	**A-1+**	**AA**	**Aa2**	**AA**	**£10m**	**3 years**
	F1+	**P-1**	**A-1+**	**AA-**	**Aa3**	**AA-**	**£10m**	**364 days**
	F1	**P-1**	**A-1**	**A**	**A2**	**A**	**£7.5m**	**6 months**
Nationalised / Part Nationalised UK Banks	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
NatWest Bank (Part Nationalised)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£30m**	**364 days**
UK Central Government (irrespective of credit rating)	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**No maximum**	**No maximum**
UK Local Authorities*	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**£10m**	**364 days**
Money Market Funds	**n/a**	**n/a**	**n/a**	**AAA**	**AAA**	**AAA**	**£5m**	**6 months**

***** *as defined in the Local Government Act 2003*

Notes and Clarifications

(1) Cash Limit

(i) The cash limits apply both to the individual counterparty and to the overall group to which it belongs (e.g. for the banks within the Lloyds Banking Group plc (being Bank of Scotland plc and Lloyds Bank plc), the investment limit applies to those banks individually and the banking group as a whole);

(ii) The overall cash limit for deposits over 364 days is £15m.

(2) Time Limit

(i) This up to and including the period indicated.

(3) Foreign Countries

(i) Investments in foreign countries will be limited to those that hold a sovereign credit rating of (Fitch) AA- or equivalent (from the agencies referred to in section 4.3 of this strategy) sovereign credit rating (based upon the lowest common denominator), and to a maximum of £10 million per foreign country.

(ii) Investments in countries whose lowest sovereign rating is not AA- or above will not be permitted. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

(iii) Subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) will be classed as a UK bank due to its substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

(iv) Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

(4) Credit Rating Downgrade

Should a credit rating downgrade place a counterparty below the minimum credit rating criteria for investment, the counterparty will cease to be used as soon as practicable.

If the Section 151 Officer wishes to continue investing with that counterparty approval will be sought from the Chair of the Governance & Audit Committee plus one other member of the Chair's choosing, who both must approve the action. This will then be reported as appropriate at the next available opportunity.

APPENDIX 9

Approved countries for investments [correct as at 19 December 2022]

This list is based on those countries which have sovereign ratings of AA- or higher (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

APPENDIX 10

Treasury management scheme of delegation

(i) County Council

- budget approval;
- approval of the annual Treasury Management Strategy Statement, Annual Investment Strategy and MRP Policy, annual Treasury Management Policy Statement and amendments thereto;
- approval of amendments to the Council's adopted clauses;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities; and
- acting on recommendations received from the Governance & Audit Committee and/or Executive Committee.

(ii) Executive Committee

- budget consideration;
- approval of the division of responsibilities;
- approval of the selection of external service providers and agreeing terms of appointment;
- receiving and reviewing monitoring reports on treasury management policies, practices and activities and making recommendations to the County Council as appropriate; and
- acting on recommendations received from the Governance & Audit Committee.

(iii) Governance & Audit Committee

- Scrutiny of Treasury Management matters as required by CIPFA's Code of Practice on Treasury Management and the Council's Treasury Management Policy. This includes:-

  - scrutinising the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and making recommendations to the Executive Committee and County Council as appropriate;
  - scrutinising proposals for amendments to the annual Treasury Management Strategy Statement, Annual Investment Strategy, Annual MRP Policy, Annual Treasury Management Policy and Treasury Management Practices and to the adopted clauses and making recommendations to the Executive and County Council as appropriate;
  - receiving and scrutinising any other proposals relating to the treasury management which require a decision by the Executive or County Council; and
  - receiving and scrutinising monitoring reports on treasury management policies, practices and activities and make recommendations to the Executive and County Council as appropriate.

The Treasury Management role of the Section 151 Officer

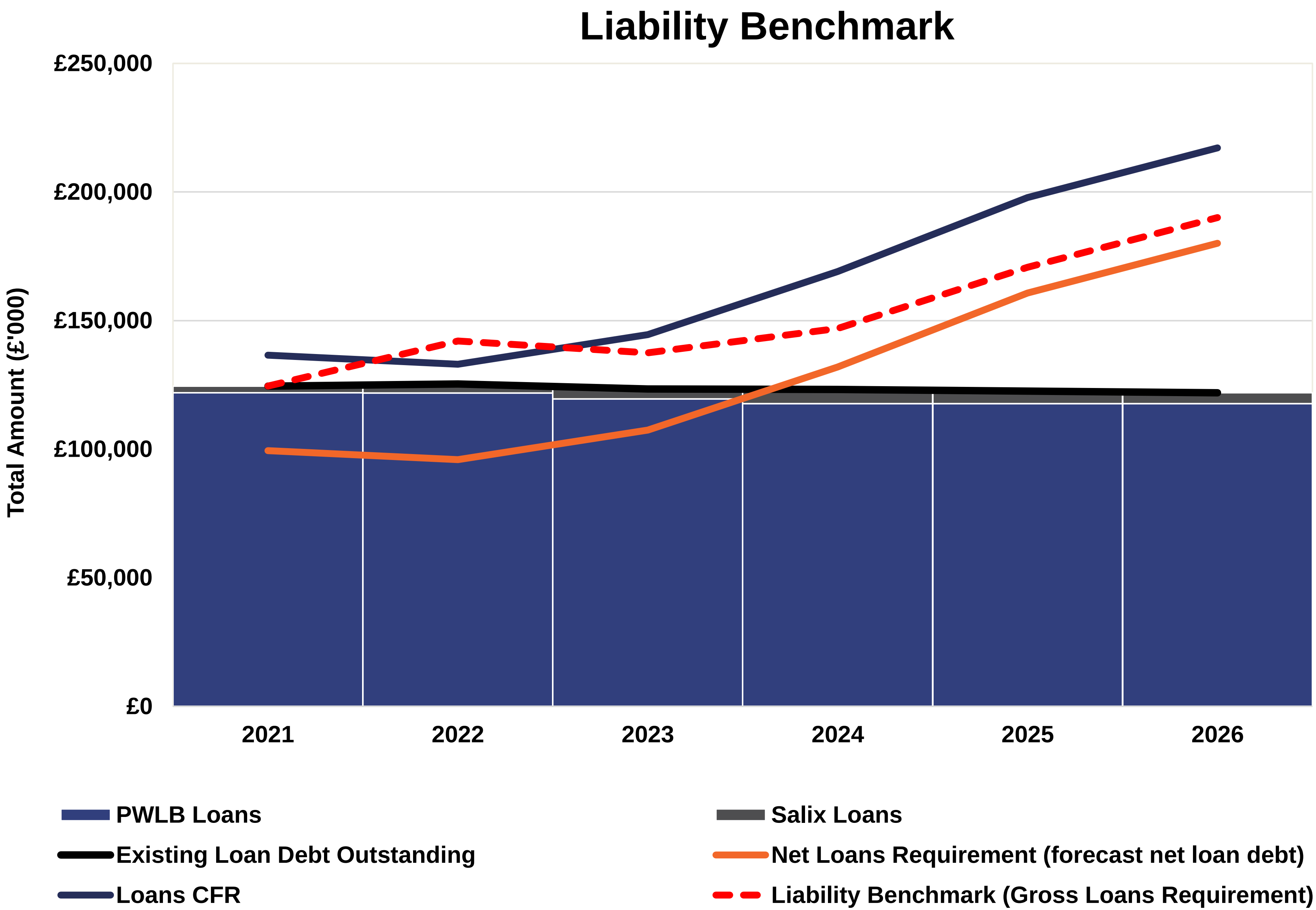
The Section 151 (responsible) Officer's role includes:-

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- responsibility for the execution and administration of its Treasury decisions, including decision on borrowing, investment and financing, have been delegated to the Section 151 Officer, who will act in accordance with the Council's policy statements and TMP's;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Authority;
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that Members are adequately informed and understand the risk exposures taken on by the Authority;
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:-
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

PRUDENTIAL & TREASURY INDICATORS BUDGET SETTING 2023/24						APPENDIX 11
No.	**Indicator**					
Affordability		**2021/22 out-turn**	**2022/23 estimate**	**2023/24 proposal**	**2024/25 proposal**	**2025/26 proposal**
1,2	Estimates of [or actual] ratio of financing costs to net revenue stream:					
	Council Fund	4.50%	2.81%	2.23%	2.95%	3.10%
	Housing Revenue Account (inclusive of settlement)	9.12%	18.41%	21.14%	26.12%	29.36%
	Total	5.04%	4.56%	4.25%	5.46%	6.06%
Prudence						
3	Gross debt and the Capital Financing Requirement (CFR)	✓	✓	✓	✓	✓
	Is the gross external debt < the CFR for the preceding year plus the estimates of any additional CFR for the current and the next two financial years?			✓	✓	✓
Capital Expenditure		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
4,5	Estimates of [or actual] capital expenditure					
	Council Fund	23,734	34,068	15,110	8,450	4,959
	Housing Revenue Account	9,723	12,085	31,847	34,351	27,659
	Total	**33,457**	**46,153**	**46,957**	**42,801**	**32,618**
6,7	Estimates of [or actual] Capital Financing Requirement					
	Council Fund	99,387	108,871	116,576	120,181	120,673
	Housing Revenue Account	38,415	40,536	60,101	85,261	104,114
	Total	**137,802**	**149,407**	**176,677**	**205,442**	**224,787**
External Debt		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
8	Authorised Limit					
	: General Borrowing	175,000	175,000	205,000	235,000	255,000
	: Other long term liabilities	5,000	5,000	5,000	5,000	5,000
	: Total	**180,000**	**180,000**	**210,000**	**240,000**	**260,000**

9	Operational Boundary					
	: General Borrowing	170,000	170,000	200,000	230,000	250,000
	: Other long term liabilities	5,000	5,000	5,000	5,000	5,000
	: Total	**175,000**	**175,000**	**205,000**	**235,000**	**255,000**
10	Actual External Debt	**125,348**				
Treasury Management		**2021/22 out-turn**	**2022/23 estimate**	**2023/24 proposal**	**2024/25 proposal**	**2025/26 proposal**
11	The limit for total principal sums invested for periods longer than 364 days	15,000	15,000	15,000	15,000	15,000
	(any long term investments carried forward from previous years will be included in each year's limit)					
			2023/24 upper limit		**2023/24 lower limit**	
12	The upper and lower limits for the maturity structure of fixed rate borrowing					
	• under 12 months		20%		0%	
	• 12 months and within 24 months		20%		0%	
	• 24 months and within 5 years		50%		0%	
	• 5 years and within 10 years		75%		0%	
	• 10 years and above		100%		0%	
			no change		no change	
13	Liability Benchmark (see chart below)					


Liability Benchmark
£250,000
£200,000
£150,000
£100,000
£50,000
£0
Total Amount (£'000)
2021
2022
2023
2024
2025
2026
PWLB Loans
Salix Loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

APPENDIX 12

Information on Prudential & Treasury Management indicators

PRUDENTIAL INDICATORS

A) Affordability

1 & 2 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in this budget report.

B) Prudence

3 Gross Debt and the CFR

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 2023/24 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 purposes.

C) Capital expenditure

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

This provides a summary of the Council's capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods.

The extent to which such expenditure is to be financed will influence how the Council's Capital Financing Requirement Indicator will change.

4 & 5 Estimates of Capital Expenditure

This is the forecast Capital Expenditure from 2022/23 to 2025/26, and is based on the Capital Programme for 2022/23 and the Capital Strategy for 2023/24.

6 & 7 The Council's borrowing need (the Capital Financing Requirement)

Another prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply 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 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 borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £nil of such schemes within the CFR.

CH) External Debt

8. **The authorised limit for external debt**. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. 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. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

   The 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 into account current commitments, existing plans, and the proposals in the budget report.

9. **The operational boundary.** 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.

10. **Actual external debt.** The Council has to disclose the closing balance for actual gross borrowing in respect of the financial period just ended, together with the level of other long-term liabilities and so the actual aggregate level of external debt at the Balance Sheet date.

TREASURY INDICATORS

11. **Limits for Long Term Treasury Management Investments.** This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Council's liquidity needs and also reduce the potential need to have to make early exit from an investment in order to recover funds. The indicator relates solely to the Council's investments for treasury management purposes.

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

13. **Liability Benchmark.** The new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years.

    There are four components to the LB: -

    1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Council'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): this equals net loans requirement plus short-term liquidity allowance.

Glossary

CAPITAL EXPENDITURE
Capital expenditure is expenditure on the purchase of a non-current asset, which will be used in providing services beyond the current financial year, or expenditure which adds to, and not merely maintains, the value of an existing non-current asset. Examples include: the building of a new school, the purchase of IT equipment, a major refurbishment of a care home.

CAPITAL FINANCING
Funds that are available to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL FINANCING REQUIREMENT
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 underlying borrowing need.

CAPITAL PROGRAMME
The capital schemes the Council intends to carry out over a specific period of time.

CAPITAL RECEIPTS
Capital receipts represent the proceeds from the disposal of land or other non-current assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government, but they cannot be used to finance revenue expenditure.

CIPFA
This is The Chartered Institute of Public Finance and Accountancy, the lead professional and regulatory body for local Authority accounting.

HOUSING REVENUE ACCOUNT (HRA)
The HRA is a separate account to the Council Fund, and includes the income and expenditure arising from the provision of housing accommodation by the Council.

INTEREST RECEIVABLE OR PAYABLE
The effective interest rate method is used to measure the carrying value of a financial asset or liability measured at cost less accumulated amortisation, and to allocate associated interest income or expense to the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to equal the amount at initial recognition. The effective interest is adjusted to the actual interest payment or receipt through the Movement in Reserves Statement to ensure only actual interest is charged to Council Tax. For financial assets and liabilities carried at cost because the effective rate of interest is the same as the carrying rate of interest, the carrying value is adjusted for accrued interest.

MINIMUM REVENUE PROVISION (MRP)
The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

NET DEBT
The Net Debt is the Council's borrowings less cash and liquid resources.

PUBLIC WORKS LOANS BOARD (PWLB)
A Central Government Agency which provides loans for one year and/or more to authorities at interest rates only slightly higher than those at which the government can borrow itself.

REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE (REFCUS)
Expenditure which can be properly deferred (i.e. treated as capital in nature), but which does not result in, or remain matched with, a tangible asset. Examples of deferred charges are grants of a capital nature to voluntary organisations.

REVENUE SUPPORT GRANT
A grant paid by Central Government to authorities, contributing towards the general cost of their services.

SUPPORTED BORROWING
The Council borrows money to fund part of its capital programme. This borrowing is recognised by Central Government in its calculation of formula funding for the Council.

TEMPORARY BORROWING
Money borrowed for a period of less than one year.

UNSUPPORTED BORROWING
The Council can borrow additional money to the borrowing supported by Government to finance its capital expenditure as long as it is affordable and sustainable. This power is governed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code, with which the Council fully complies.