ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**GOVERNANCE AND AUDIT COMMITTEE**
Date:	**11 FEBRUARY 2025**
Subject:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2025/26**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS, DEPUTY LEADER AND PORTFOLIO HOLDER FINANCE & HOUSING**
Head of Service / Director:	**MARC JONES, DIRECTOR OF FUNCTION (RESOURCES) AND SECTION 151 OFFICER**
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Local Members:	**n/a**

A – Recommendation/s and reason/s

- The Council is required to produce and publish an annual Treasury Management Strategy Statement (TMSS) before the start of each financial year. The Council, under the Local Government Act 2003 and Welsh Government Regulations, has to have due regard to the CIPFA Prudential Code and CIPFA Treasury Management Codes, the latest versions of which were published in 2021.

- This TMSS complies with the requirements in both codes and sets out all the requirements which must be followed in how the Isle of Anglesey County Council treasury management activities are conducted. This helps to ensure that the Council's investments are secure and sufficiently accessible so that there is enough cash to for day-to-day payments as they fall due. The TMSS, as required by the codes, also provides a framework to ensure that the Council's borrowing levels remain prudent and affordable.

- The CIPFA Prudential Code, 2021 (S29), introduced more frequent treasury management monitoring reports. The Council now produces treasury management quarterly reports, culminating in the year-end treasury management outturn report.

- These reports provide monitoring information on the forward-looking prudential indicators which are specified in the appendices within the TMSS. The quarterly reports highlight any significant variances from the approved indicators and include forecasts on the Council's borrowing and investments during the year.

- **Recommendations**
  - To review the Treasury Management Strategy for 2025/26 and submit comments to the Executive and 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 County Council? Statutory requirement

It is a requirement of the Code that the Treasury Management Strategy Statement is approved by the full Council.
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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**	Treasury management is key to facilitating sustainability for the long-term needs of the Island, as borrowing plans help to fund capital expenditure to ensure assets are available now and into the future. Treasury plans must also be affordable to ensure that future generations are not disadvantaged by Treasury Management decisions taken in the short and medium term.
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how:-**	The Treasury Management strategy and activity must be affordable to mitigate the impact on the future. Some capital expenditure funded by borrowing, such as Sustainable Communities for Learning and other invest to save schemes funded by borrowing, may help to reduce future costs.
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	Treasury Management activities often fund capital projects in partnership with other organisations, such as Welsh Government. The 21st Century Schools Programme / Sustainable Communities for Learning new schools/extensions were / are funded with significant funding from Welsh Government.
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	Anglesey Citizens are consulted each year about the annual capital programme, some of which is dependent on Treasury Management activities. More in-depth consultation occurs on some capital projects such as new school builds / school reorganisations.
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.**	Newly built assets funded by borrowing will be compliant with the Equality Act and related regulations and guidance. Annual refurbishments and replacement programmes also help to increase accessibility and enable diversity.
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	The TMSS is required each year.
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.**	Some of the projects funded by borrowing have a positive impact on the development and increase of the Welsh Language, such as the Welsh medium schools built as part of the 21st Century Schools Programme / Sustainable Communities for Learning Programme.

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**	

F - Appendices:

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

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

- 2024/25 Treasury Management Strategy Statement, approved by the full Council on 7 March 2024
- Annual Treasury Management Review 2023/24, approved by the full Council on 22 October 2024
- 2023/24 Capital Outturn Report, presented to this Committee on 23 July 2024
- 2024/25 Capital Budget Monitoring Quarter 2, presented to the Executive on 26 November 2024
- 2024/25 Treasury Management Mid-Year Report, presented to this Committee on 11 February 2025
- 2025/29 Capital Strategy – Isle of Anglesey County Council, 6 March 2025

APPENDIX A

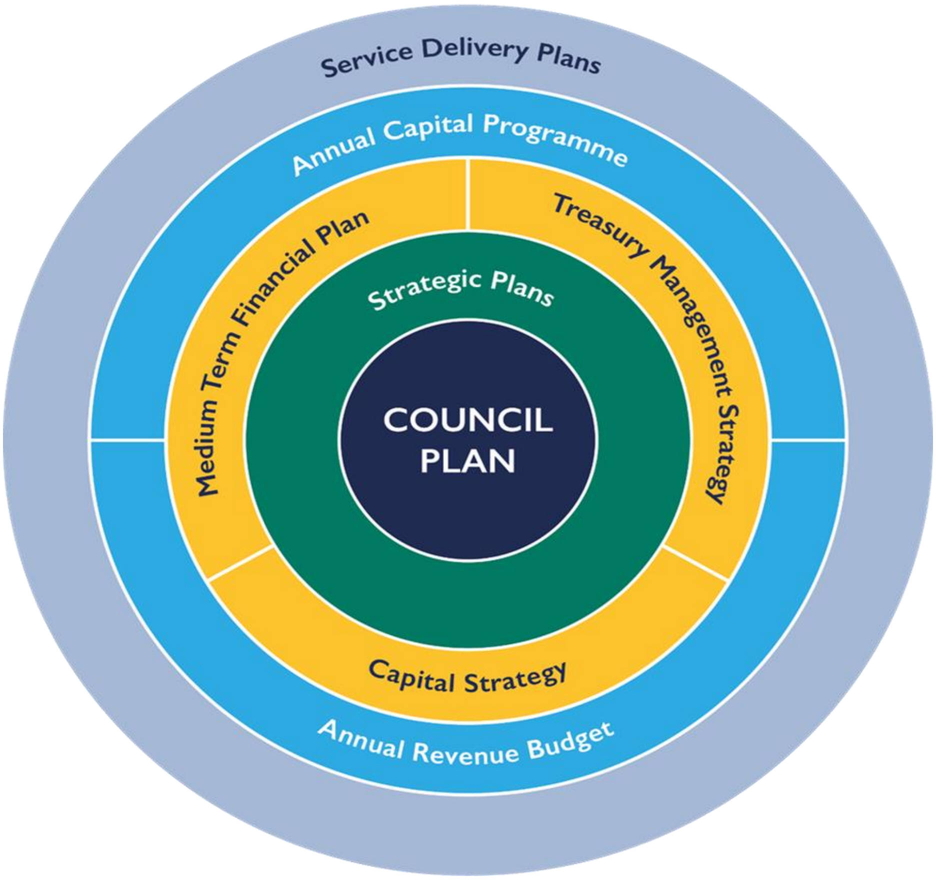
TREASURY MANAGEMENT STRATEGY STATEMENT

ANNUAL INVESTMENT STRATEGY, MINIMUM REVENUE PROVISION POLICY STATEMENT AND TREASURY MANAGEMENT POLICY STATEMENT 2025/26

1. INTRODUCTION

1.1 The Treasury Management Strategy Statement (TMSS) 2025/26 provides the framework for day-to-day and medium-term treasury management. It is completed with regard to the CIPFA Prudential Code 2021 and the CIPFA Treasury Code 2021.

1.2 The TMSS is a key part of the Council's strategic planning processes to help ensure that the Council is able to achieve its strategic objectives and vision. The Council's strategic circle below shows the Council Plan is central to the work of the Council. All the Council's strategic and operational plans must align with the Council Plan to deliver the services and priorities needed to achieve the strategic objectives of the Plan. The circle shows that the Treasury Management Strategy Statement, alongside the Capital Strategy and Medium-Term Financial Plan, are the key financial strategies to ensure that the Council's financial resources are managed in line with key legislation, CIPFA requirements and are focused on meeting the priorities of the Council. This helps ensure that the Council's finances are targeted at the right functions and services to achieve the Council's goals.



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*."

2.2. Treasury management involves tasks which ensure that there is enough cash in the Council general account to pay day-to-day bills and the investment of surplus cash, over what is needed in the general account. These investments must be in highly secure accounts, such as UK banks with high credit ratings. The Council prioritises security of its funds, in line with the Code, and ensures that enough cash is instantly accessible so that the Council is able to pay suppliers, staff and benefits, at the required payment dates. The last consideration is yield, the Council invests to get the highest interest rate possible within the pool of organisations that are secure and meet the criteria in this strategy. The final element of Treasury Management is managing the Council's loan portfolio to ensure that the Council's borrowing is not too high and that the revenue costs of borrowing are affordable.

2.3. 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. ISLE OF ANGLESEY TREASURY MANAGEMENT POLICY STATEMENT

3.1 In addition to the corporate risk policies, register, actions and monitoring, the Council takes its responsibility for good stewardship of public funds seriously and all treasury management practices will have protection of public funds engrained. It is impossible to eliminate all risk, but all treasury management activities will be managed to reduce the risk Council funds are exposed to, as follows:-

3.1.1 Investment decisions will always prioritise security of the investment first. Liquidity is the second consideration, as the Council needs instant access to enough funds to pay day-to-day payments as they fall due. Finally, the Council will seek to maximise income earned on investments only if the investments are highly secure and if there is sufficient instant access to funds.

3.1.2 Bank deposits, or investments in banks or building societies, will only be placed in highly secure banks and building societies with high credit ratings in line with the criteria included in Appendix 7.

3.1.3 Loans to local authorities will be considered after due diligence checks have been completed.

3.1.4 Investments in AAA rated money market funds are permitted.

3.1.5 The Council will aim to keep a minimum of £10m in instant access accounts, if Council balances are sufficient.

3.1.6 The Council is committed to ensuring value for money in its treasury management activities, though within the context of protection of public funds.

3.1.7 The Council will internally borrow if there is sufficient cash balances, particularly when interest rates are rising, to reduce or delay interest payable.

3.1.8 If there is a borrowing need for eligible purposes, any borrowing should take into account whether rates are likely to rise or reduce in the medium-term. Short-term loans should mitigate interest payable if rates are likely to reduce in the short or medium-term, and longer-term loans should be considered if interest rates are forecast to increase in the medium to long-term.

3.1.9 Treasury management activity supports the achievement of the Council's key priorities and will be aligned with the Capital Strategy and the Medium-Term Financial Plan to ensure that investments are secure, accessible and interest receivable is optimised within secure investments. Borrowing will be based on the requirements of the Capital Strategy 2024/28 and annual programmes, but only if affordable, taking into account the financial scenario at the time and information in the Medium-Term Financial Plan, which is updated regularly.

3.1.10 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**.**

4. EXTERNAL CONTEXT

4.1 A full summary of the economic outlook is set out in Appendix 2. Table 1 below shows the recent Bank of England base rate forecasts, inflation and PWLB rates provided by MUFG Corporate Markets, Limited. (MUFG).

Table 1
Forecast Bank Base Rate, Inflation and PWLB Rates March 2025 to December 2026

	Mar	Jun	Sep	Dec	Mar	June	Sept.	Dec.
	2025	2025	2025	2025	2026	2026	2026	2026
Bank Rate (%)	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Inflation (OBR October 2024)	2.60%	2.60%	2.60%	2.60%	2.30%	2.30%	2.30%	2.30%
5yr PWLB rate (%)	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
10yr PWLB rate (%)	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
25yr PWLB rate (%)	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
50yr PWLB rate (%)	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%

4.2 The Bank of England's (BoE) target inflation, set by the Government, is 2%. Inflation started to creep up beyond this from August 2021, with the CPI rate reaching a high of 11.1% in October 2022 due to the impact of the invasion of Ukraine, which caused significant energy and food price increases. Inflation remained high for longer than anticipated, but started to decrease in April 2023, to 8.7%, with CPI reducing to 7.9% at the end of the first quarter of 2023/24. In 2024/25, inflation has reduced significantly, to the BoE target of 2% achieved in June 2024. Inflation rates continued to decrease in the second quarter, with CPI at 1.7% at 30 September 2024. While the forecasts of CPI for 2025 and 2026 are higher than the 2% target (see Inflation forecast by OBR, October 2024, above in Table 1), these rates are significantly better than in 2022 and 2023.

4.3 At the start of the pandemic, the base rate was reduced to its lowest point at 0.1% in support of the economy. In December 2021, the BoE increased the rate to 0.25%, and then increased the base rate at each meeting of the Monetary Policy Committee (MPC) between 0.25% to 0.75% at its highest increase. In August 2023, the MPC increased the base rate to 5.25%. The rate of 5.25% remained unchanged until 1 August 2024, when the base rate was reduced for the first time since 2020, to 5%, which was also the rate at 30 September 2024. The base rate has since reduced to 4.75%, and the markets are expecting a further cut on 6 February 2025 to 4.5%

4.4 The Council benefits from a higher base rate for investment of surplus cash, which has helped the Council earn more than £1m in interest receivable. However, loans to the Council are more expensive since the BoE started raising interest rates to try to control inflation. External borrowing is, therefore, delayed until cash balances can no longer sustain the use of Council balances to fund capital expenditure (internal borrowing).

5. THE COUNCIL'S CURRENT BORROWING POSITION

5.1 Borrowing PWLB – the Council's PWLB loan portfolio at 31 December 2024 is £117.693m as shown below in Table 2 below. The average rate across both maturing and annuity loans is 4.48%. The significant majority of loans are maturity loans which are repaid at the end of the loan period. Appendix 3 shows the repayment dates of the PWLB loans. No new PWLB loans were taken out during the year to 31 December 2024. This is due to the need to avoid borrowing while interest rates are increasing. Instead, Council cash balances have been used to fund capital expenditure. This is in line with MUFG advice on borrowing in the current economic climate. The opportunity cost of this is that there are less balances to invest, however, borrowing costs are higher than investment yields. To ensure the Council has enough cash to pay creditors and salaries, sufficient cash must remain in instant call accounts. Typically, the interest rates on these are much lower, so the Council is still able to make reasonable savings on interest payable while using cash balances.

Table 2
Public Works Loans Board (PWLB)

PWLB Loans at 31 December 2024			
	PWLB Maturity £'000	PWLB EIP/ Annuity £'000	Total PWLB Loans at 31 December 2024 £'000
Loan Outstanding	117,546	147	117,693
Average Life of Outstanding Loans (years)	28.64	3.77	28.61
Average rate (%)	4.47%	9.42%	4.48%

5.2 Borrowing Salix – Salix is a Welsh Government organisation which provides interest free loans and, more recently, grants for projects which support the environment and to help public sector bodies in Wales to work towards achieving their net zero target by 2030. The Council had £4.393m of interest free loans outstanding with Salix at 31 December 2024. These loans are repaid over a period of 8 or 10 years, depending on the agreement, with 2 repayments made per year, per loan. These loans have funded LED street lighting, LED lighting in schools and leisure centres and various other sustainable projects. Appendix 4 shows the payments due for each relevant financial year.

Table 3
Salix Loans at 31 December 2024

Salix Loans at 31 December 2024						
	Salix Loan 2 £'000	Salix Loan 3 £'000	Salix Loan 4 £'000	Salix Loan 5 £'000	Salix Loan 6 £'000	TOTAL £'000
Outstanding Balance	46	254	119	1,543	2,431	**4,393**
Repayment Date	2025/26	2027/28	2029/30	2031/32	2035/36	
Interest rate (%)	-	-	-	-	-	-

6. THE COUNCIL'S INVESTMENT BALANCES AS AT 31 DECEMBER 2024

6.1 The total balance of investments at 31 December 2024 was £22.541m, as shown in Table 4 below. The yield from these investments from 1 April 2024 to 31 December 2024 was £1.207m, with the total interest receivable on the below listed investments expected to be £1.552m for 2024/25. This figure is likely to be higher as new investments are made when these mature, however, cash balances are reducing as the financial year progresses, therefore, not all these investments will be viable to renew on maturity. The interest receivable will be shared on the appropriate basis between the Council Fund, the HRA, schools and external bodies the Council holds funds for, including the Trusts.

Table 4
Investments 1 April 2024 to 31 December 2024

Counterparty	Start Date	End Date	Interest Rate %	Investment Amounts 1 April to 31 December 2024 £	Investment Principal at 31 December 2024 £	Estimated Interest earned to 31 December 2024 £	Estimated Total Interest 2024/25 on these Investments £
Natwest Call Account	01/04/2024	31/03/2025	Variable	11,758,959	6,659,695	266,374	422,199
Nationwide Building Society	08/01/2024	08/04/2024	5.11%	5,000,000	-	63,700	63,700
Santander Uk Plc	09/02/2024	09/05/2024	5.19%	5,000,000	-	63,986	63,986
National Westminster	11/03/2024	11/06/2024	5.23%	5,000,000	-	65,912	65,912
Bank of Scotland Call Account - Lloyds	01/04/2024	31/03/2025	Variable	7,692,214	3,881,375	198,489	352,676
Goldmansachs International Bank	08/04/2024	08/10/2024	5.29%	5,000,000		132,612	132,612
Santander	09/05/2024	08/11/2024	5.07%	5,000,000	-	127,097	127,097
National Westminster	09/05/2024	09/08/2024	5.14%	5,000,000	-	64,778	64,778
National Westminster	11/06/2024	11/12/2024	5.23%	5,000,000	-	131,108	131,108
Santander Uk Plc	08/11/2024	10/02/2025	4.68%	5,000,000	5,000,000	33,978	60,263
Goldmansachs International Bank	08/10/2024	08/01/2025	4.78%	5,000,000	5,000,000	55,003	60,241
Bank of Scotland Call Account - Lloyds	16/12/2024	15/01/2025	4.75%	2,000,000	2,000,000	3,904	7,808
Total					**22,541,071**	**1,206,943**	**1,552,381**

7. IMPACT OF FUTURE PLANS ON BORROWING

7.1 Capital expenditure is partly funded from borrowing, therefore, the Capital Strategy and this strategy are closely linked. The capital expenditure summary 2025/26 to 2027/28 presents three options for capital expenditure. All three scenarios take into account the work needed on the Council's assets or whether replacement assets will be needed. The three options are presented as the base case, ambitious and ideal scenarios, with the ideal requirement being the amounts to bring all the Council assets to a high standard or new asset where replacements are needed. The capital expenditure in this strategy uses the first scenario –the base case, due to the significant funding shortfall for 2025/26 and, potentially, for the years beyond.

7.2 Table 5 below shows estimated expenditure and funding for the period 2023/24 to 2028/29. For 2025/26 onwards, this is the minimum level of capital investment due to significant funding issues.

Table 5
Estimated Capital Expenditure and Funding 2023/24 to 2028/29

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
Council Fund - excl. Investment Properties	27,924	39,162	22,207	8,315	7,196	7,061
HRA	19,806	27,841	25,438	26,266	11,368	10,969
Investment Properties	2,844	0	0	0	0	0
Total Expenditure	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**
Capital Grants	29,936	41,670	29,677	14,543	5,351	5,351
Capital Receipts	98	940	500	0	0	0
Reserves & Revenue Contributions	16,376	16,573	7,893	8,983	7,962	8,337
Supported Borrowing	3,991	5,027	3,163	2,126	2,126	2,126
Unsupported Borrowng	38	2,777	6,412	8,929	3,125	2,216
Salix Loans	135	16	0	0	0	0
Total funding	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**

7.3 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. While internal borrowing saves the Council in interest payable costs, the Minimum Revenue Provision (MRP) is charged on the basis of the underlying borrowing need (the CFR), not the actual borrowing. Table 6 shows the CFR for both the Council Fund and the HRA, after the MRP has been deducted. Table 7 shows the actual borrowing taken out by the Authority. The difference between the CFR and the actual borrowing is the amount of internal borrowing. This is also shown in Table 7.

Table 6
Capital Financing Requirement

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
CFR - Council Fund	108,542	111,141	117,333	119,949	121,352	122,725
CFR - HRA	38,151	38,083	37,057	42,118	49,718	51,409
Total CFR	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**
Net movement in CFR	**2,583**	**2,530**	**5,166**	**7,677**	**9,003**	**3,064**

Table 7
Actual Borrowing and Internal Borrowing (Use of Cash Balances)

	Actual 2023/24 £'000	Estimated 2024/25 £'000	Estimated 2025/26 £'000	Estimated 2026/27 £'000	Estimated 2027/28 £'000	Estimated 2028/29 £'000
External Borrowing	122,410	122,163	124,705	132,899	141,789	146,756
Internal Borrowing	24,283	27,061	29,685	29,168	29,281	27,378
Total CFR	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**

7.4 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 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.

7.5 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 MRP. Regulations require that the Council approves a MRP statement in advance of each financial year. The policy for 2025/26 is set out in Appendix 5. The Council's MRP policy was substantially revised in 2018, and again for the financial year beginning 1 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.

7.6 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 December 2024, the total overpayments were £216k, 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.

8. BORROWING STRATEGY

8.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR) 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.

Against this background, and the risks within the economic forecast, caution will be adopted with the 2025/26 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 borrowing rates, then borrowing will be postponed.
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- MUFG's long-term (beyond 10 years) forecast is 3%. All PWLB certainty rates are currently significantly above this rate. Therefore, better value can be gained from short-term investments until the bank rates reduce.

8.2 External v Internal Borrowing

8.2.1 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. 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.

8.2.2 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.

8.2.3 However, short term savings by avoiding new long term external borrowing in 2025/26 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.

8.3 Borrowing in Advance of Need

8.3.1 The Council will not borrow more than, or in advance of, its needs, purely, in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR 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.

8.4 Debt Rescheduling

8.4.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated, but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

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

8.5 Borrowing from other Financial Institutions

8.5.1 The PWLB is the Council’s main source of borrowing, with some loans from the Welsh Government owned organisation, Salix, for funding of energy efficiency and low carbon projects. The PWLB certainty rate is gilts & 80 basis points (0.8%). Consideration may be given to borrowing from the below:-

- Local authorities;
- UK Municipal Bond Agency – pooled loans;
- Corporate Loans;
- Money Market Funds.

9. DEBT PROFILE

9.1 Appendix 4 shows the maturity information of the Council's borrowing. The existing borrowing is due to be repaid in various years up to 2068/69. The Council aims 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.

Table 8
Maturity Profile of PWLB and Salix Loans, 31 December 2024

Number of Years until Loan Matures	Principal £'000
<1	577
1 to 3	5,403
4 to 6	5,359
7 to 10	3,128
11 to 14	6,411
15 to 22	17,994
23 to 33	50,251
34 to 50	32,963
TOTAL	**122,086**

10. INVESTMENT STRATEGY AND CREDITWORTHINESS POLICY

10.1 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 Council aims to have an agile investment strategy 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.

10.2 Management of Risk

The Isle of Anglesey County Council is one of the smallest local authorities in Wales. It receives the second lowest settlement from Welsh Government, with Merthyr Tydfil receiving the lowest. The Council does not have the large council balances some of the larger authorities hold, though there are larger councils with similar balances or less. Management of risk is the primary consideration for all of the Council's investments.

10.2.1 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, with the Council's risk appetite being for low-risk investments only.

10.2.2 Minimum acceptable **credit criteria** (Appendix 7) are applied 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.

10.2.3 **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.

10.2.4 Investments can be specified or non-specified (Appendix 7 defines these and provides further information. The Council, in line with its requirement for investing in low risk investments, will only invest in 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.

10.2.5 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.

10.2.6 This Council will set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 10).

10.2.7 The Council will only invest in counterparties outside the UK if the credit ratings are AAA or above and if there are exceptional circumstances, such as the creditworthiness of UK investments are compromised. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see Appendix 9).

10.2.8 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.

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

10.3 Creditworthiness Policy

10.3.1 The primary principle governing the Council's investment criteria is the security of its investments. After this main principle, the Council will ensure that:-

- 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.
- It will only invest in counterparties which have credit ratings as outlined in Appendix 7.

10.3.2 As an additional layer to the minimum credit rating criteria described above, this Council also employs the creditworthiness service provided by MUFG.

10.3.3 The MUFG 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.

- All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG 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.

10.3.4 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. Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

10.4 Country Limits

The Council has determined that, with the exception of the UK, it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA 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 8. This list will be added to or deducted from by officers should ratings change in accordance with this policy. In practice, investments tend to be placed in UK banks for security reasons. The list is included for the unlikely event of there being an exceptional need to invest in highly secure counterparties in other countries. For example, in the event of UK banks losing their creditworthiness and failing the specific Counterparties Council's criteria.

11. GOVERNANCE AND CONTROL

11.1 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.

11.2 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.

11.3 Role of the Section 151 Officer and Members

11.3.1 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.

11.3.2 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.

11.3.3 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.

11.3.4 The Council officers involved in treasury management activities have comprehensive knowledge and skills for managing the treasury management function. The Section 151 Officer plays a key role in Treasury Management and approves or rejects any investments proposed by the team. The Council also provides training to increase the knowledge and skills for those responsible for management, delivery, governance and decision making.

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

11.3.6 The Treasury Management Scheme of Delegation and a fuller explanation of the role of the Section 151 Officer is set out in Appendix 9.

12. TREASURY MANAGEMENT ADVICE

12.1 The Council uses MUFG Corporate Markets Treasury Limited (MUFG) (formerly called Link Group) 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 2025, with an option to extend for two years, with Link Group, Treasury Solutions being the successful tender.

12.2 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.

13. PRUDENTIAL AND TREASURY INDICATORS

13.1 The Prudential and Treasury Indicators set out in Appendix 10 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 10.

14. REPORTING

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

- 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).

14.2 Quarterly treasury management monitoring reports - these 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.

14.3 An annual treasury year-end 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.

14.4 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance & Audit Committee for the mid-year and year-end reports. The Executive will scrutinise the quarter 1 and quarter 3 reports, which were introduced by the Prudential Code 2021.

15. CONCLUSION

15.1 In summary, the Treasury Management Strategy Statement for 2025/26 continues the strategy of prudent approach to borrowing, in order to limit the revenue implications, and using internal borrowing where cash balances allow. The investment strategy continues the policy of ensuring the security and liquidity of deposits over yield.

15.2 It is envisaged that, over the lifetime of the strategy, that the continued use of reserves to contribute to fund the revenue budget and the use of the Housing Revenue Account to fund capital expenditure will reduce cash balances significantly. An increased level of borrowing will have to be undertaken in order to fund the Council’s capital programme, whilst still maintaining sufficient cash balances to fund liabilities as they fall due.

APPENDIX 1

The CIPFA Treasury Management in the Public Services: Code of Practice – provided by MUFG Corporate Markets Treasury Limited (formerly Link Group)

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.

Economics and Interest Rate update - produced by MUFG Corporate Markets Treasury Limited (formerly Link Group)

- The third quarter of 2024/25 (October to December) saw:
  - GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
  - The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
  - CPI inflation increase to 2.6% in November;
  - Core CPI inflation increase from 3.3% in October to 3.5% in November;
  - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
  - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.
- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.
- The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".

2. Interest rate forecasts

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

The latest forecast, updated on 11th November, sets out a view that both short and long-dated interest rates will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30th October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

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

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

Moreover, Donald Trump's victory in the US President election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of any further tax cuts and an expansion of the current US budget deficit.

Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound.

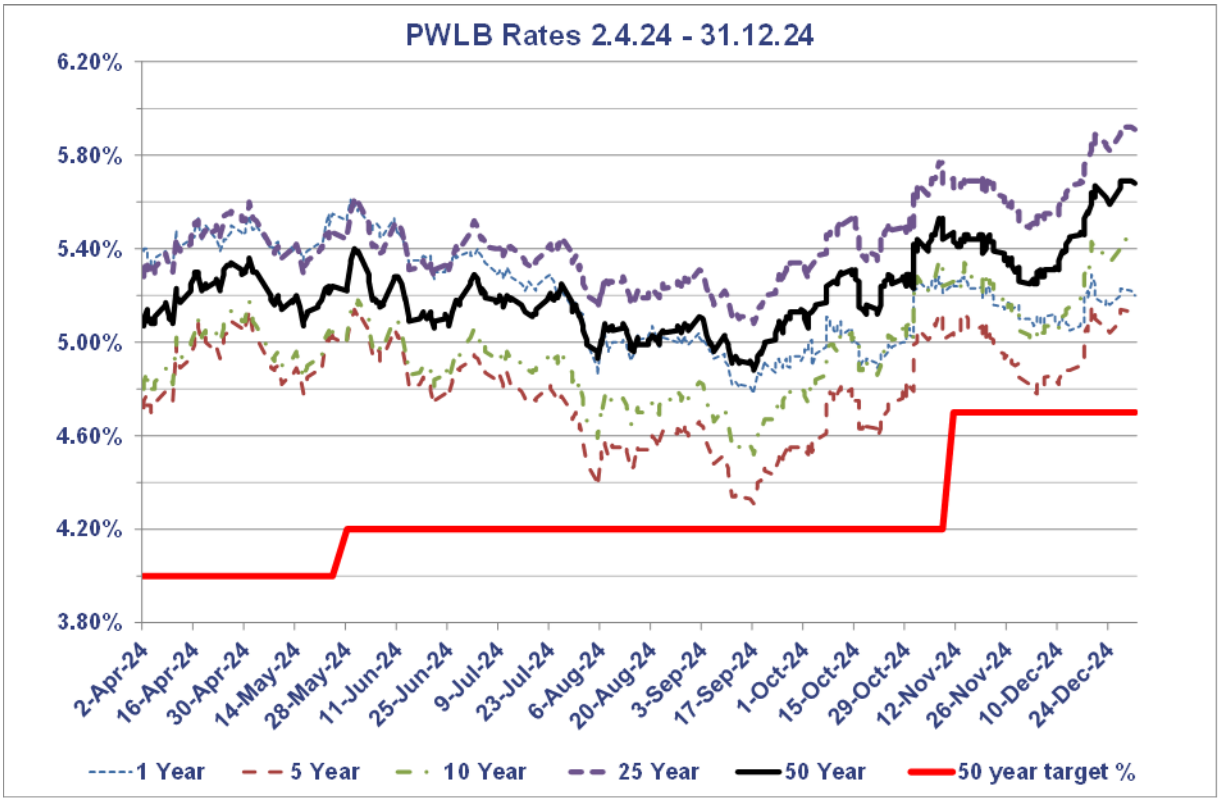
In summary, regarding PWLB rates, movement in the short-end of the curve is expected to reflect Link's Bank Rate expectations to a large degree, whilst medium to longer-dated PWLB rates will remain influenced not only by the outlook for inflation, domestically and globally, but also by the market's appetite for significant gilt issuance (£200bn+ for each of the next few years). As noted at the Link November Strategic Issues webinars, there is upside risk to that part of our forecast despite the Debt Management Office skewing its issuance to the shorter part of the curve.

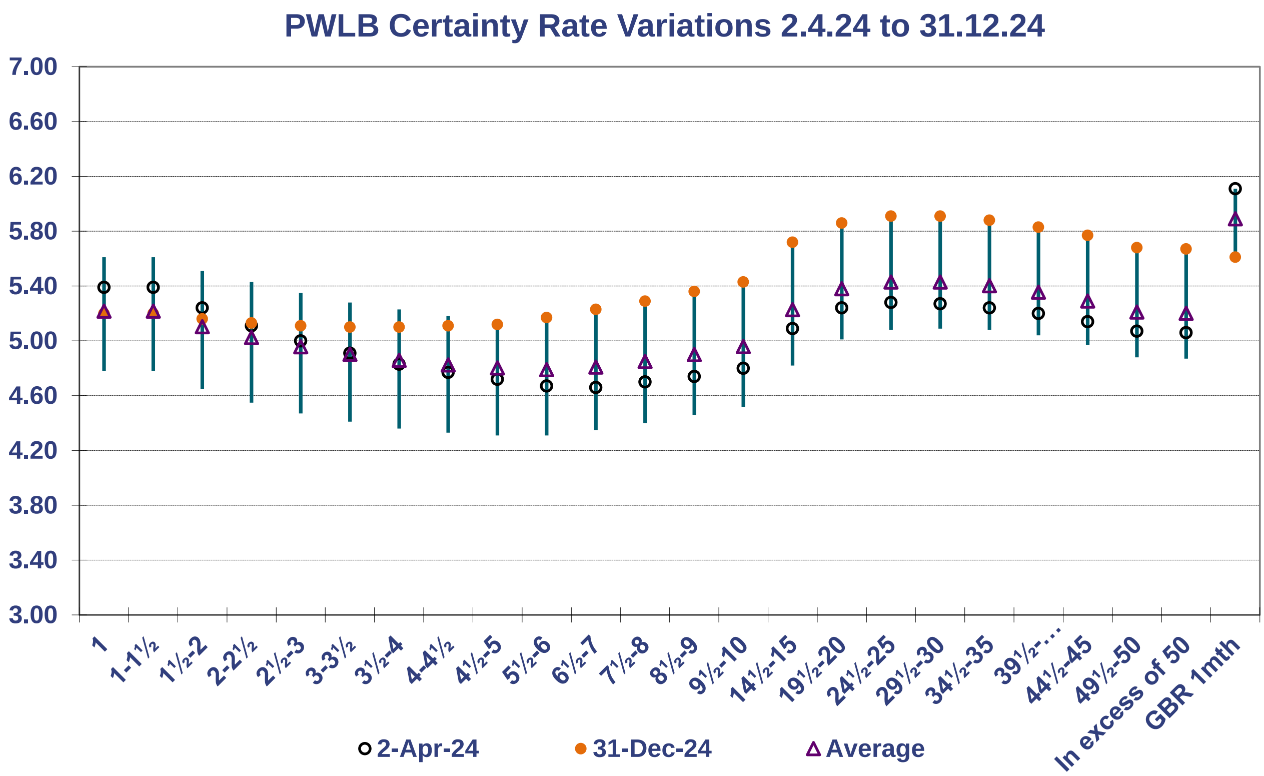
Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- Money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 2.4.24 to 31.12.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 31.12.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

APPENDIX 3

PWLB Loans Repayment Dates at 31 December 2024

Financial year	Loan Maturity Date	Interest Rate %	Repayment Amount £
2026/27	01/04/2026	3.67	527,601
	30/09/2026	8.63	853,800
2026/27 Total			**1,381,401**
2027/28	01/04/2027	3.73	490,601
	19/08/2027	5.20	1,000,000
	30/09/2027	7.00	674,502
2027/28 Total			**2,165,103**
2028/29	01/04/2028	3.80	262,440
	01/03/2029	9.50	17,135
2028/29 Total			**279,575**
2029/30	01/04/2029	3.85	684,697
	09/05/2029	9.25	3,356
	06/06/2029	9.38	11,111
	01/09/2029	9.25	6,210
	30/09/2029	8.63	853,800
	06/12/2029	9.25	10,936
2029/30 Total			**1,570,110**
2030/31	01/04/2030	3.91	450,706
	09/05/2030	9.38	7,919
	01/09/2030	9.75	12,901
	09/11/2030	9.75	4,365
	06/12/2030	9.75	9,074
	01/03/2031	9.25	7,140
2030/31 Total			**492,105**
2031/32	01/04/2031	3.96	660,449
	30/09/2031	8.63	1,280,700
2031/32 Total			**1,941,149**
2032/33	01/04/2032	4.01	314,886
	06/06/2032	9.25	24,731
	06/12/2032	9.50	30,954
	01/03/2033	9.88	1,168
2032/33 Total			**371,739**
2033/34	01/04/2033	4.05	636,565
2033/34 Total			**636,565**
2034/35	01/04/2034	4.09	623,834
2034/35 Total			**623,834**
2035/36	01/04/2035	4.13	611,357
2035/36 Total			**611,357**
2036/37	01/04/2036	4.16	599,130
2036/37 Total			**599,130**
2037/38	01/04/2037	4.18	587,147
2037/38 Total			**587,147**
2038/39	01/04/2038	4.20	225,467
2038/39 Total			**225,467**

Financial year	Loan Maturity Date	Interest Rate %	Repayment Amount £
2039/40	15/04/2039	4.95	5,000,000
2039/40 Total			**5,000,000**
2040/41	15/04/2040	4.95	3,500,000
2040/41 Total			**3,500,000**
2042/43	01/04/2042	4.25	999,781
2042/43 Total			**999,781**
2043/44	01/04/2043	4.25	1,020,120
2043/44 Total			**1,020,120**
2044/45	01/04/2044	4.25	1,009,718
2044/45 Total			**1,009,718**
2045/46	01/04/2045	4.25	11,464,215
2045/46 Total			**11,464,215**
2050/51	16/01/2051	4.15	2,000,000
2050/51 Total			**2,000,000**
2052/53	19/05/2052	4.05	5,000,000
	12/10/2052	4.55	4,300,000
	09/11/2052	4.55	6,138,400
	20/11/2052	4.20	6,800,000
	11/12/2052	4.25	6,000,000
2052/53 Total			**28,238,400**
2054/55	06/05/2054	8.38	3,000,000
2054/55 Total			**3,000,000**
2055/56	15/11/2055	8.00	1,500,000
	15/12/2055	7.88	2,000,000
2055/56 Total			**3,500,000**
2056/57	15/04/2056	7.13	3,000,000
	10/10/2056	7.88	2,000,000
2056/57 Total			**5,000,000**
2057/58	15/04/2057	7.13	6,000,000
	15/10/2057	6.50	2,512,854
2057/58 Total			**8,512,854**
2059/60	22/06/2059	4.25	1,763,308
2059/60 Total			**1,763,308**
2064/65	25/03/2065	2.24	10,000,000
2064/65 Total			**10,000,000**
2066/67	30/03/2067	2.20	6,200,000
2066/67 Total			**6,200,000**
2068/69	16/01/2069	2.49	15,000,000
2068/69 Total			**15,000,000**
Grand Total			**117,693,078**

APPENDIX 4

Salix Loans Repayment Dates

Financial year	Salix Loan Repayments £
2025/26	577,033
2026/27	531,413
2027/28	531,413
2028/29	531,413
2029/30	454,613
2030/31	441,413
2031/32	441,413
2032/33	220,977
2033/34	220,977
2034/35	220,977
2035/36	220,977
Total	**4,392,618**

APPENDIX 5

Minimum Revenue Provision (MRP) Policy Statement 2025/26

The Council is required to pay off an element of the accumulated Council Fund and HRA capital spend funded by borrowing, each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP),

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 Policy Statement:-

From 1st April 2022, for all Council Fund and HRA 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.

Capital expenditure incurred each year will not be subject to a MRP charge until the following financial year or, in some cases, at the discretion of the Section 151 Officer, the year after the asset becomes operational where the costs incurred on the asset are £5m or higher.
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.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

The Council retains the right to make additional voluntary revenue provision (VRP) to reduce debt if deemed prudent for the Council Fund and / or the HRA

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are £0.216m and £12.386m from the over-provision of MRP following the change in MRP policy in 2018.

Leased Assets into the Authority

MRP in respect of right of use assets leased into the Council or PFI (Private Finance Initiative) will, from 1 April 2024, be charged at an amount equal to the principal element of the annual repayment.

Capitalisation Directive

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

Loans to Third Parties

In the exceptionally rare event of the Council providing a loan to a third party. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments. The capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

APPENDIX 6

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 2025/26, 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 7 set out the investment criteria and limits for the categories of investments intended for use during 2025/26 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.

Counterparty Criteria Investments

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 business account and cash manager – when amounts are held in the NatWest as part of operational banking. The following amounts and limits will apply to ensure adequate cash is available to pay bills as they fall due.	F1	P-1	A-1	A+	A1	A+	1) £20m to £25m 2) £15m to £20m 3) £10m to £15m	5 working days 1 month 2 months
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) AAA 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 £5m 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.

(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 8

Approved countries for investments [correct as at 25 November 2024]

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 MUFG credit worthiness service.

Based on lowest available rating

AAA

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

AA-

- U.K.

APPENDIX 9

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 the Treasury Management mid-year report and Treasury Outturn report 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 and affordable 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 (TMP) 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.

APPENDIX 10

PRUDENTIAL INDICATORS FOR 2023/24 – 2028/29

	Prudential Indicators	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Affordability		**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	Council Fund	3.16%	3.01%	2.61%	2.59%	2.54%	2.53%
	Housing Revenue Account (inclusive of settlement)	5.09%	6.04%	4.74%	6.28%	8.24%	8.83%
	Total	3.77%	3.62%	3.00%	3.43%	4.14%	4.41%
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							
4,5	**Estimates of [or actual] capital expenditure**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	30,768	39,162	22,207	8,315	7,196	7,061
	Housing Revenue Account	19,806	27,841	25,438	26,266	11,368	10,969
	Total	**50,574**	**67,003**	**47,645**	**34,581**	**18,564**	**18,030**
6,7	**Estimates of [or actual] Capital Financing Requirement**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Council Fund	108,542	111,141	117,333	119,949	121,352	122,725
	Housing Revenue Account	38,151	38,083	37,057	42,118	49,718	51,409
	Total	**146,693**	**149,224**	**154,390**	**162,067**	**171,070**	**174,134**
8	**Authorised Limit**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	General Borrowing	154,390	162,067	171,070	174,134	176,230	181,461
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	Total	**159,390**	**167,067**	**176,070**	**179,134**	**181,230**	**186,461**

	Prudential Indicators	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
9	**Operational Boundary**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	General Borrowing	**144,390**	**152,067**	**161,070**	**164,134**	**166,230**	**171,461**
	Other long term liabilities	5,000	5,000	5,000	5,000	5,000	5,000
	Total	**149,390**	**157,067**	**166,070**	**169,134**	**171,230**	**176,461**
10	**Actual External Debt**	**122,410**	**122,163**	**124,705**	**132,899**	**141,789**	**146,756**
Treasury Management							
		out-turn	**estimate**	**proposal**	**proposal**	**proposal**	**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**	**15,000**
	(any long term investments carried forward from previous years will be included in each year's limit)						
12	**The upper limits for the maturity structure of fixed rate borrowing**						
	• under 12 months	<20%					
	• 12 months and within 24 months	<20%					
	• 24 months and within 5 years	<20%					
	• 5 years and within 10 years	<30%					
	• 10 years and above	No upper limit					

APPENDIX 11

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 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue 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 2025/26.

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 asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and, therefore, the Council's borrowing requirement, these types of 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 2025/26 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.