BLAENAU GWENT COUNTY BOROUGH COUNCIL

Treasury Management Strategy Statement

Annual Investment Strategy and Minimum Revenue Provision Policy Statement

2024/25

INDEX

1.0 Introduction

1.1 Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and / 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 Council Fund Balance.

CIPFA defines Treasury Management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities. Loans to third parties will be subject to the same creditworthiness checks as any other investments, outlined in section 4.3.

To date the Authority has not engaged in any commercial investments and has no non-treasury investments but will consider proposals as they arise.

1.2 Statutory requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. The Treasury Strategy details the expected activities of the Treasury function in the forthcoming financial year (2024/25). The Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Statutory Instrument WSI 2008 no. 588 section 3 lays down that:
"A local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent."

Along with the above duty, the Welsh Government issued guidance in March 2008 (and further updated in November 2018) which requires that a Statement on the Authority's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The current MRP policy was agreed by Council in 2021 and remains appropriate, the Annual MRP Policy Statement is included at section 5.

1.3 Reporting requirements

1.3.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy, which will provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members of the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3.2 Treasury Management Code

The primary requirements of the Treasury Management Code are:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions, which in this Council is the Chief Officer Resources.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Corporate Overview and Performance Scrutiny Committee.

1.4 Reporting Arrangements

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

a. **The Treasury Management Strategy Statement** (this report) - The first, and most important report covers:
   - The capital plans (including prudential indicators)
   - a Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
   - the Treasury Management Strategy (how the investments and borrowings are to be organised), including treasury indicators; and

- an Annual Investment Strategy (the parameters on how investments are to be managed).

b. **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and an assessment of whether the treasury strategy is being met or whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The reports are required to be adequately scrutinised before being recommended to and accepted by the Full Council. This role is undertaken by the Corporate Overview and Performance Scrutiny Committee.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Corporate Overview and Performance Scrutiny Committee.

The table below sets out the frequency of the reporting requirements:

Area of Responsibility	**Frequency**
Treasury Management Strategy / Investment Strategy / MRP policy	Annually before the start of the financial year
Treasury Management Strategy / Investment Strategy / MRP policy – midyear outturn report	Mid-year
Treasury Management Strategy/Performance against approved Prudential Indicators	Quarterly
Treasury Management Strategy / Investment Strategy / MRP policy – updates or revisions at other times	Ad hoc
Annual Treasury Outturn Report	Annually by 30 September after the year end.

1.5 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers.

These elements incorporate the requirements of the Local Government Act 2003, Welsh Government Investment Guidance and MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.6 Training

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.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies
- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis."

Members were invited to attend a training session in November 2023, provided by the Authority's Chief Officer Resources. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function will be maintained by the Capital and Corporate Accounting Team. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Democratic Services Department.

1.7 Treasury Consultants

The Council uses external treasury management advisors, Link Treasury Services to support its Treasury Management function, however 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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The Council's current advisors are Link Group and have been appointed from May 2022.

1.8 The role of the S151 Officer

The role of the S151 Officer in relation to Treasury management has been embodied in the CIPFA Code of Practice for many years. The 2017 revised Code, further enhanced this role in relation to the following areas:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

2. The Capital Prudential Indicators 2024/2025 – 2026/2027

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The actual capital expenditure that was incurred in 2022/2023 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure £000's					
	2022/23 Actual	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Total	47,849	73,233	28,145	13,998	6,305

Note

Actual figures for 2022/23 & estimated figures for 2023/2024 represent total gross capital expenditure (I.e. include all expenditure including that financed from grant).

Estimated figures for 2024/25, 2025/26 & 2026/27 are based on the Authority's approved capital programme plus external funding approvals received at this stage and estimated spend
The higher estimate for 2023/24 relates mainly to the railway works and associated loan from WG

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure £000's	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	47,849	73,233	28,145	13,998	6,305
Financed by:					
Grants, Capital Receipts, revenue and other sources	43,969	40,629	15,924	10,102	2,264
Net financing need for the year from USB and PB***, & Other Borrowing**	**3,880**	**32,604**	**12,221**	**3,896**	**4,041**

** USB – Unhypothecated Supported Borrowing – borrowing that is supported through the Revenue Support Grant.

***PB – Prudential Borrowing – borrowing that is not supported through the Revenue Support Grant.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second 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 indebtedness and so its underlying borrowing need. Any capital expenditure, which has not immediately been paid for (i.e. is borrowed for), will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. 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 £0.673m of such schemes within the CFR.

The CFR projections recommended for approval are shown in the table below:

Capital Financing Requirement					
	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £001
CFR at start of financial year	170,399	174,597	205,863	216,650	219,013
CFR at end of financial year	174,597	205,863	216,650	219,013	220,833
Movement in CFR	4,198	31,266	10,787	2,363	1,820
Movement in CFR represented by:					
Net Financing need for the year (above)	5,785	32,604	12,221	3,896	4,041
New Finance Leases	157	500	500	500	500
less MRP	-1,744	-1,838	-1,934	-2,033	-2,721
	4,198	31,266	10,787	2,363	1,820

2.3 Liability Benchmark

A third prudential indicator for 2024/25 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

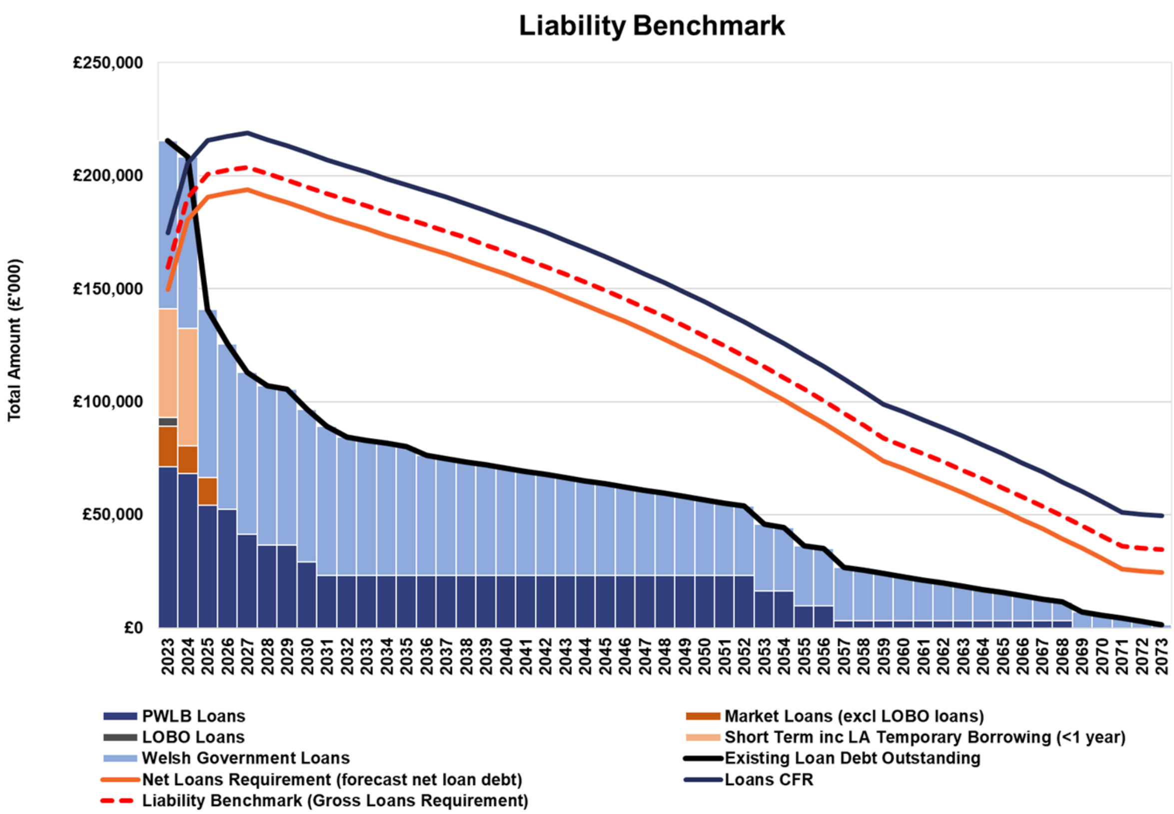
1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

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 Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The chart below shows the Authority's Liability Benchmark (dotted line) for the maturity profile of the outstanding debt.



Liability Benchmark					
	2022/23 Actual £000	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Liability Benchmark	161,117	190.308	200.596	202.459	203,779
Existing Loan Debt Outstanding	217,117	208,353	140,901	125,624	113,016
(Over)/Under Liability Benchmark	(56,000)	(18,044)	59,694	76,834	90,764

The liability benchmark, or the Gross Loans requirement, is the forecast of the level of debt the Council requires in accordance with its budget plans.

Where the liability benchmark is greater than the existing loan debt, it suggests that there is a borrowing requirement, and the Authority is in an under-borrowed position. Where the existing loans debt is greater than the liability benchmark, it suggests that the Authority is over-borrowed and has surplus cash requiring to be invested.

The above chart above shows that the Authority was in an over-borrowed position as at 31st March 2023, which is due to the receipt of the £70m rail loan from the Welsh Government in March 2021. As expenditure is incurred in relation to the rail scheme, this over-borrowed position will reduce as the Capital Financing Requirement begins to increase. Excess cash balances from the receipt of the loan were invested in line with the Council's Investment Strategy.

The chart also shows that as the existing loan debt outstanding decreases due to maturing debt being repaid, the Authority will have a borrowing requirement. This borrowing requirement is built into the annual Treasury Management estimates included within the Medium Term Financial Strategy and will be met via the Borrowing Strategy outlined in section 3.4 below.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.5 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.

Ratio of financing costs to net revenue stream					
	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	2.41%	4.05%	3.67%	3.79%	4.16%

Note:
The estimates of financing costs for 2024/2025 include current commitments and the proposals in the budget report presented to Council in February/March
The net revenue stream for 2025/2026 & 2026/2027 are based on the following assumptions, which have been used as the basis for the Authority's medium term financial strategy (MTFS).

- *RSG & NNDR – per MTFS assumption to increase by 02.8% for 2025/26 and remains at that level for 2026/27*
- *Council Tax -assumes 4% increase per annum.*
- *Council Tax Base – increase of 0.6% from2023/2024 level*

3.0 Treasury Management Strategy for 2024/2025

The capital expenditure plans set out in Section 2 provide details of the capital activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this capital activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

The suggested strategy for 2024/2025 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Link Treasury Services.
The Strategy covers:

3.1 the current treasury portfolio position
3.2 Treasury management prudential Indicators for 2024/2025 to 2026/2027
3.3 prospects for interest rates
3.4 the borrowing strategy
3.5 policy on borrowing in advance of need
3.6 debt rescheduling
3.7 strategy on the use of usable capital receipts

3.1 Current Treasury Portfolio Position

The Council's treasury portfolio position at 31 March 2023, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Treasury Portfolio Position					
	2022/23 Actual £000	**2023/24 estimate £000**	**2024/25 estimate £000**	**2025/26 estimate £001**	**2026/27 estimate £002**
External Debt:					
Debt	217,482	208,353	213,614	212,580	214,359
Other Long-Term Liabilities	264	524	685	747	810
Gross Debt as at 31 March	217,746	208,877	214,299	213,327	215,169
The Capital Financing Requirement	174,597	205,863	216,650	219,013	220,833
Under / (Over) Borrowing	-43,149	-3,014	2,351	5,686	5,664

The Council is currently in an over borrowed position. This means its actual debt is higher than its capital financing requirement in the curent year, this is as a result of Welsh Government providing the Authority with a specific loan in relation to the Rail Track in March 2021. However, the table indicates that as expenditure is incurred in relation to this capital scheme, the Authority will revert to its under borrowed position over time.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Officer Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Management Prudential Indicators for 2024/25 – 2026/27

The following section sets out the Treasury Management Prudential Indicators that are recommended for approval.

3.2.1 Adoption of CIPFA Code of Practice for Treasury Management

In December 2021, CIPFA issued a revised CIPFA Code of Practice for Treasury Management in the Public Services, the Council will continue to comply with this.

3.2.2 Treasury management limits on activity

There are four debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- ***Upper Limit on Fixed Interest exposure***

  Blaenau Gwent County Borough Council has always adopted a risk averse strategy in relation to variable rate debt and should interest rates rise the Authority would wish to continue with its strategy of maintaining a stable long-term portfolio by drawing longer term fixed rate funding. In order to be consistent with this strategy, the upper limit on fixed rate exposures for 2024/2025, 2025/2026 & 2026/2027 should be set at 100% of its net outstanding sums.

- ***Upper Limit on Variable Interest Exposure***

In order to give the flexibility to enable debt rescheduling opportunities to be undertaken, the upper limit on variable rate exposures for 2025/2026, 2026/2027 & 2027/2028 should be set at 30% of its net outstanding sums.

- ***Range of Exposures***

This means that the Chief Officer Resources will manage fixed interest exposures within the range 70% to 100% and variable rate exposures within the range 0% to 30%. This is a continuation of current practice.

- ***Maturity Structure of Fixed Rate Borrowing***

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

The amount of projected borrowing that is fixed rate and maturing in each period, as a percentage of total projected borrowing that is fixed rate, is illustrated in the table below. This is a continuation of the current practice.

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months & within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	95%	5%

3.2.3 Authorised Limit for External Debt

This is a key Prudential Indicator that represents a control on the maximum level of borrowing. This represents a legal 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.

It is recommended that the Council approves the following Authorised Limits for its Total External Debt Gross of Investments for the next three financial years.

Authorised limit for external debt				
	2023/24 £000	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Borrowing	247,580	250,433	249,103	243,724
Other long-term liabilities	803	576	754	822
Total	**248,383**	**251,009**	**249,856**	**244,545**

3.2.4 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.

The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit but directly reflects the Chief Officer Resources' prudent estimate of the most likely but not worst-case scenario. It excludes the contingency included within the Authorised Limit (to allow for example for unusual cash movements) and equates to the maximum of external debt projected by this estimate. The Operational Boundary represents a key management tool for in year monitoring by the Chief Officer Resources.

It is recommended that the Council approves the following Operational Boundary Limits for the next three financial years.

Operational Boundary for external debt				
	2023/24 £000	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Borrowing	225,073	227,666	226,457	221,567
Other long term liabilities	730	524	685	747
Total	**225,803**	**228,190**	**227,142**	**222,314**

3.2.5 Actual External Debt

The Council's actual external debt as at 31 March 2023 was £217.5 million (including temporary borrowing), comprising 99.9% borrowing and 0.1% other long term liabilities. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary since the actual debt reflects the position at one point in time.

3.3 Prospects for Interest Rates

As part of their service, the Council's treasury advisor Link Group, assist the Council to formulate a view on interest rates. The following table illustrates expected rates to March 2027:

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Additional notes by Link on this forecast table: -

- *Forecast for interest rates reflect a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).*

- *Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.*

- *In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.*

Forecasts for Bank Rate

- As shown in the forecast table above, the forecast for Bank Rate now indicates we are currently at the peak of 5.25%. The forecast now expects the Monetary Policy Committee (MPC) to begin cutting rates by September 2024, with a steady decline down to 3.00% in the mid-term.

Gilt yields / PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Link's target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Investment and borrowing rates

Investment returns are expected to fall during the later half of 2024/25 in line with the markets expectations of rate cuts made by the Bank of England. However, while rates are forecast to decrease, actual economic circumstances may see the MPC fall short of these expectations and keep rates higher for longer.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. The Bank of England has since increased the base rate, now to its current rate of 5.25%. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Borrowing for capital expenditure. The long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt the cost of carry will be minimised, (the difference between higher borrowing costs and lower investment returns).

3.4 The Borrowing Strategy

The Council is currently in an over borrowed position. This means its actual debt is higher than its capital financing requirement in the curent year, this is as a result of Welsh Government providing the Authority with a specific interest free loan in relation to the Rail Track project. However, as expenditure is incurred in relation to the scheme, the Authority will revert to its under borrowed position.

The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short term interest rates currently lower than long term rates, it is likely to be more cost effective in the short term to either use internal resources, or to borrow short term loans instead.

By doing so, the Authority is able to reduce borrowing costs and reduce overall treasury risk. This results in the Council having a low liquidity ratio, however the risk associated with this is minimal and is continually monitored. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to decrease. The Council's Treasury Advisors will assist the Authority with this cost of carry and breakeven analysis.

In addition, the Authority will borrow short term loans to cover cash flow shortages.

The borrowing strategy to be adopted will therefore be:
(Each strand of the strategy will be considered together, and decisions made based on the most advantageous position for the Authority at that time).

To utilise the Authority's overdraft facility:
to fund unexpected daily cash deficits;
to fund temporary cash shortfalls where there are no other sources of funding available within the marketplace.

To borrow over the short term:
to fund temporary cash shortfalls;
to maintain a suitably balanced maturity profile;
to make short term savings required in order to meet budgetary constraints;
in anticipation of securing longer term loans at more attractive rates.

To borrow over the long term:
to reduce the Authority's average cost of borrowing;
to maintain a stable, longer term portfolio;
to maximise the potential for future debt rescheduling.

If appropriate to avoid all new external borrowing:
to maximise savings in the short term;
to run down temporary investment levels;
to minimise exposure to interest rate and credit risk.

Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Officer Resources 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.*

3.5 Policy on borrowing in advance of need

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 Capital Financing Requirement estimates and will be carefully considered to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

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

3.6 Debt Rescheduling

As short term borrowing rates will be still be cheaper than longer term rates, there may be potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

The reasons for any rescheduling to take place will include: -

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the strategy outlined in paragraph 3.4 above
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Variations in risk will be considered when evaluating such opportunities, in order to ensure that the Authority’s risk averse strategy is maintained.

All rescheduling will be reported to Council as part of the mid-year and Annual Treasury Outturn reports.

3.7 Strategy on the use of Usable Capital Receipts

The long standing policy on usable capital receipts is that they are immediately invested internally, thereby helping to improve the Authority’s cash flow position and reducing the level of external loans that need to be raised. This in turn reduces external interest charges from the money market. This approach is consistent with what is regarded as good practice in terms of strategic level treasury management and overall produces savings in debt servicing costs for the Authority. However, as approved sums of usable capital receipts are subsequently used to finance part of the annual capital programme each year, appropriate allowance then needs to be made for the use of these receipts in determining the estimated level of external borrowing required for that year. Hence usable capital receipts are released on a controlled basis and the annual estimates for external interest charges are adjusted accordingly.

4.0 Annual Investment Strategy

4.1 Background

The Welsh Government and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

In setting its investment strategy the Council has regard to the following: -

- Part 1 of the Local Government Act 2003
- The Welsh Government’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities are:

1. The **Security** of the capital sum –ensuring that our investments are safe and not at risk of being lost;
2. The **Liquidity** of its investments – ensuring that our investments are easily accessible i.e. not tied up for long periods of time;
3. Return on investment (**Yield**) – once security and liquidity have been satisfied in line with the Council’s risk appetite, then and only then will the Council seek the maximum return on its investment.

The Borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

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 mainly maintains temporary, short-term investments (i.e. for periods of less than a year) and investments will accordingly only normally be made with reference to the cash flow requirements, including the investing of sums borrowed at prevailing low interest rates in anticipation of capital spending. Due to the receipt of cash in relation to specific capital schemes (Rail Track project) where spend was likely to be incurred over a 5-year period, this has identified cash that could be invested for longer periods, this annual investment strategy has been amended to reflect this

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for the decreases in Bank Rate during the second half of 2024.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
Long term later years	3.25%

For its cash flow generated balances, the Council will seek to utilise the Local Authority lending market, notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

4.2 Definition of Investments – Specified and non-specified

The Local Government Act 2003 refers to specified and non-specified investments. The Welsh Assembly Government's Guidance on Local Government Investments, effective from 1st April 2010, defines the following:-

Specified Investments:

An investment is a **specified** one if **all** of the following apply:-

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

(b) the investment is not a long-term one i.e. one which is due to be repaid within 12 months of the date on which the investment was made or one which may require to be repaid within that period

(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]

(d) 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 UK 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.

* High credit quality is defined in the creditworthiness policy in 4.3

Non-specified Investments:

(i) An investment is non-specified if it does not meet the above definition.

As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the Council Fund. The Welsh Government has passed a statutory override to allow Welsh local authorities time to adjust their portfolio of all pooled investments by delaying implementation of IFRS 9 for five years until 31 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Welsh Government.

4.3 Creditworthiness policy

In accordance with the guidance from the Welsh Government and CIPFA, and in order to minimise the risk to investments, the Council applies the creditworthiness service provided by its Treasury Advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries

Counterparties for investment purposes are selected using specific criteria, as follows:

Banks - high credit quality **–** the Council will only use banks which:

- are UK banks; and/or

- are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAA (any non UK transactions would be undertaken in Sterling).

- and have, as a **minimum**, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):

Table 1:

	Fitch	**Moody's**	**S&P**
Long Term	A-	A3	A-
Short Term	F1	P-1	A-1

Long term rating *– covers maturities of up to five years. It provides an assessment of the ongoing stability of the institutions prospective financial condition.* ***A*** *indicates high credit quality and low expectation of credit risk. The + or – suffixes are appended to a rating to denote the relative status within the long term rating category. The Moody's and S&P definitions are similar to Fitch. The Moody's numerical suffix indicates a rating at the higher end of the scale (1) to the lower end of the scale (3), with 1 having higher credit quality than 3.*

Short term rating *– covers obligations which have a maturity of less than one year. This rating places greater emphasis on the liquidity necessary to meet financial commitments. Rating* ***F1 (Fitch)*** *is the highest short term credit quality rating. It indicates the strongest capacity for timely payment of financial commitments.*
The Moody's and S&P definitions are similar to Fitch.

- **Part nationalised UK bank** – Royal Bank of Scotland Group (NatWest, Royal Bank of Scotland, Ulster Bank). This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks above.

- **The Council's own banker (Barclays)** – Since under existing arrangements excess surplus funds can be held overnight with the Council's Bank, unexpected credit rating downgrades to the Bank could result in these short-term investments technically being placed with a counterparty that does not meet the minimum approved credit criteria specified above. The S&P short term rating for Barclays is A-1. A-1 means that S&P consider Barclays capacity to meet its financial commitment on its obligations as strong. Fitch and Moody's both consider this to be strong. The minimum credit rating for Barclays will therefore be A-1 (S&P) with F1 for Fitch and P-1 for Moody's. Whilst this will mean that Barclay's S&P credit ratings could be lower than those required for other institutions (as detailed above), investments with Barclays will be restricted to the overnight (or over weekend) sweep facility (where surplus balances are “swept” into an interest bearing account) up to a maximum of £10 million.

Should Barclays’ credit ratings continue to meet the credit criteria required for other institutions (above), then the investment periods for meeting the minimum criteria will continue to be applied. See below for contingency arrangements in relation to the Authority’s bank.

Table 2:

	Fitch	**Moody’s**	**S&P**
Long Term	A+	A1	A
Short Term	F1	P-1	A-1

- **Building societies** - The Council will *use* ***only*** the Nationwide Building Society, unless their short term credit ratings fall below the minimum specified in table 1 above for banks.

- **AAA rated Money market funds (MMFs**) – Triple A rated MMFs are considered to be highly credit rated.

- **UK Government** - The Debt Management Account Deposit Facility DMADF of the Debt Management Office (DMO). The DMO is legally and constitutionally part of HM Treasury and as an Executive Agency of Her Majesty’s Treasury it operates at arm’s length from Ministers. The DMO is considered to be highly credit rated.

- **UK Local authorities**, Police Authorities, parish councils etc.

- **Corporate Bonds, Ultra short and short duration bonds -** The council will invest in corporate bonds in line with the criteria below

Use of additional information other than credit ratings

Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information must be applied before making any specific investment decision from the agreed pool of counterparties. Ratings will therefore not be the sole determinant of the quality of an institution and the assessment will therefore also take account of information that reflects the opinion of the markets, as follows:

Credit default swaps (CDS)
The Council will engage with its Treasury advisors to maintain a monitor on market pricing such as “credit default swaps (CDS)” and overlay that information on top of the credit ratings.

CDS spreads offer a timely market perception of the risk attached to the relevant institution. These can, on occasion, pre-empt actions by the credit rating agencies whose ratings can lag behind market reaction to changes in the credit institutions situation. Since they are traded instruments, they carry in them market perception related to that entity's credit quality. In order to "measure" the CDS data, the Authority uses a benchmark system which allows the CDS spread of an institution to be compared against a predetermined benchmark rate. This data is then used to assess whether the market is indicating that an institution's credit quality is a cause for concern. Where there is a cause for concern then the counterparty will be either downgraded in terms of investment period or removed from the approved list.

Credit Rating Agency Comments

- ***Rating Watch negative (or on review for possible downgrade)***

Where the credit rating agencies have placed counterparties on "rating watch negative" or "on review for possible downgrade", then this indicates that there is a reasonable probability of a rating change in a relatively short period (a few weeks). If the counterparty is on negative rating watch, then it will be downgraded in terms of the investment period or removed from the list.

- ***Negative Outlook***

This indicates the direction a rating is likely to move over a one to two year period.

<u>Time and monetary limits applying to investments.</u>

The table below shows the time and monetary limits per institution on the Council's counterparty list:

	Long term Rating (Fitch, Moody's, S&P)	Short term rating (Fitch, Moody's, S&P)	Money Limit	Time Limit
Banks - higher quality	***AAA, Aa2, AA***	**F1+, P-1, A-1+**	**£15m**	**3 years**
Banks - medium quality (including Nationwide BS)	**A-, A3, A-**	**F1, P-1, A-1**	**£6m**	**2 years**
Banks – part nationalised	**N/A**	**N/A**	**£4m**	**2 years**
Council's banker (not meeting Banks - medium)	**A+, A1, A**	**F1, P-1, A-1**	**£10m**	**overnight**
DMADF	**AAA**	**N/A**	**unlimited**	**6 months**
Corporate bonds, ultra-short and short duration bonds	**AA, A**	**A-1**	**£10m**	**4 years**
Local authorities – per Authority	**N/A**	**N/A**	**£10m**	**3 years**

	Fund rating		**Money Limit**	**Time Limit**
Money market funds – per MMF	**AAA**		**£10m**	**liquid**

Country and Group Limits

The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign rating of AAA from Fitch (Aa2 Moody's, AAA S&P).

In addition, no more than £6m will be placed with any non-UK Bank/Financial Institution at any time.

For financial institutions included within the same banking group, the counterparty limit will apply to the group.

Lloyds Banking Group

- Halifax Lloyds Bank Bank of Scotland

RBS Group

- National Westminster Royal Bank of Scotland Ulster Bank

4.4 Contingency Arrangements for the Authority's Corporate Bank

If credit agency ratings change and the Authority's Corporate Bank fails to comply with the approved Investment Policy criteria specified above, then delegated authority, to agree appropriate and reasonable interim contingency arrangements prior to approval by Full Council, is granted to the Members and Officers listed below:

a. Nominated Members: Leader of the Council, Deputy Leader of the Council, Chair of Corporate Overview and Performance Scrutiny Committee.

b. Nominated Officer: Statutory Section 151 Officer (Chief Officer Resources)

The Statutory Section 151 Officer and at least two of the three nominated Members, must approve unanimously the appropriate and reasonable interim contingency arrangements.

4.5 Monitoring of credit ratings

Guidance states that the Annual Investment Strategy must state how credit ratings are to be monitored and what action is to be taken when ratings change.

The responsibility for constructing and amending the Council's approved counterparty investment list is delegated to the Chief Officer Resources and is contained within the Treasury Management Practice Schedules. All investments will be made in accordance with this list and the limits therein.
Credit ratings for individual counterparties can change at any time. The Chief Officer Resources is responsible for applying the stated credit rating criteria above, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures. The Authority is alerted to changes in credit ratings through its Treasury Advisors.

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

- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near at the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

The only exception permitted to these criteria will be the contingency arrangement for the Authority's bank described in section 4.4

4.6 Liquidity of Investments

The maximum period for which funds may be committed will depend upon future cash flow requirements and will comply with the maximum period permitted (as specified in the table above).

Specified investments may comprise up to 100% of the Council's total investments

The Authority will consider investing in long-term investments in order to manage the cash profile associated with the specific rail project. Excluding the UK Government, it is suggested that no more than £15m be placed with any one institution with duration as set out in the table above. The Authority will not have more than £50m deposited in long-term investments (the Upper Limit).

4.7 Ethical investing

Investment guidance, both statutory and from CIPFA, makes clear that the SLY principles i.e. security, liquidity and yield must remain fundamental to Local Authority investing: however ethical issues may play a subordinate role to this. It should be noted, that local authority investing, incorporates Environmental, Social and Corporate Governance (ESG) metrics into credit rating agency assessments and a growing number of financial institutions and fund managers/money market funds promote ESG products. Therefore, where appropriate the Authority will consider ESG factors when setting up any investment arrangements.

4.8 Investment monitoring reports

The Council will report on its investment activity as part of its mid-year and Annual Treasury Outturn Report.

5. Annual Minimum Revenue Provision (MRP) Statement

The Secretary of State recommends that before the start of each financial year a local authority prepares a statement of its policy on making MRP in respect of that financial year and submits it to full Council.

Under regulation 22 of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, local authorities are required to charge to their revenue account for each financial year MRP to account for the principal cost of their debt in that financial year.

For 2007/8 and subsequent financial years, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP which they consider to be prudent. Local Authorities are legally obliged to “have regard” to such guidance (i.e. set a prudent MRP) – which is exactly the same duty as applies to other statutory guidance including the Prudential Code and CIPFA Treasury Management Code.

The broad aim of prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant.

The legislation does not define what constitutes a “prudent provision”. However, the MRP guidance issued by the Secretary of State (WG) interprets the term and provides some ready-made examples of acceptable methods for calculating a prudent level of MRP.

The Council’s current approved MRP policy is as follows:

MRP on Supported Borrowing – this element of the CFR will be calculated on an annuity basis over 50 years.

MRP on Unsupported Borrowing – this will be based on Option 3 of the statutory guidance that allows for MRP provision using the asset life methodology on an annuity basis. The calculation looks at the average asset life for all unsupported borrowing in each year and applies the annuity calculation to the total unsupported borrowing capital expenditure for that year. The annuity method can be argued as providing a fairer charge than equal instalments as it takes into account the time value of money. The interest rate to be used in the annuity calculation is the weighted average PWLB annuity rate. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

In addition, the guidance allows for MRP to be deferred for assets under construction and this part of the guidance is adopted because the asset is not used by the authority until it is operational and therefore the MRP will match the life of the asset.

MRP on Finance Leases - Option 3 will apply in a modified form, to ensure that the MRP for Finance Leases is equal to the rental payable each year, with the following exception for capital receipts.

Capital Receipts – In circumstances where it is prudent to do so and to protect Council Tax payers from unnecessary MRP charges, capital receipts received will be used to reduce the Council's overall borrowing requirement, rather than making a conventional MRP charge to revenue.

Loans to third parties – where loans are made to other bodies for their capital expenditure, then the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead of charging MRP. However, if there is a risk during the term of the loan that collateral held as security is not sufficient to meet its obligations or there is a likelihood of default, a prudent MRP will commence as a charge to the Authority's revenue account.

Voluntary repayment of debt - the Authority may make additional voluntary debt repayment provision from revenue or capital resources. If it does so, this will be disclosed in the Authority's Statement of Accounts. The Section 151 officer can then choose to offset previous years disclosed overpayments against the current year's prudent provision providing the amount charged is not less than zero.

Application of retrospective sum – The remaining £3.2m retrospective adjustment balance from the previous MRP Policy review in 2017/18, has been re-profiled over the period 2021/22 to 2025/26. However, it is important to note that all figures have been calculated prospectively and do not amend any previous years calculations, in line with the Welsh Government Guidance which applied from April 2019.

CP 15/02/2024