Agenda Item: 5

Meeting of:	**Cabinet**
Date of Meeting:	**Monday, 27 February 2023**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	**Treasury Management and Investment Strategy 2023/24 and Update for 2022/23**
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2022 and to submit for consideration the proposed 2023/24 Treasury Management and Investment Strategy and Treasury Management Policy
Report Owner:	**Executive Leader and Cabinet Member for Performance and Resources**
Responsible Officer:	**Matt Bowmer Head of Finance / Section 151 Officer**
Elected Member and Officer Consultation:	None
Policy Framework:	This report needs to be referred to Council for approval.

Executive Summary:

- This interim report provides an update on the Council's Treasury Management operations for the period 1st April to 31st December 2022. All activities were in accordance with the Council's approved strategy on Treasury Management. Details of monies borrowed and repaid and those invested are outlined in the report.
- The report presents the proposed 2023/24 Treasury Management and Investment Strategy at Appendix 1.
- The Council must ensure that the Prudential Code is complied with, which has been developed by CIPFA as a professional code of practice and recently revised in December 2021. To demonstrate the Council has fulfilled these objectives, the Code sets out prudential indicators that should be used and the factors that must be considered. These are shown in Appendix 1 as part of the Strategy.
- The Council also has a legal requirement to comply with the Welsh Government Guidance on Investments and has taken this into consideration when developing the Strategy.

- New Borrowing in the period is expected to be £127m for new Capital Expenditure and a further £24m of borrowing to replace maturing loans and reflect the Council's reducing ability to internally borrow over the period.

- Capital expenditure when financed by long term debt incurs two elements of cost, interest and repayment of the principal sum borrowed. The resources the Council must put aside in each year to repay the principal sum borrowed is known as Minimum Revenue Provision (MRP) and the Council's policy for the calculation is detailed in the report.
- The Treasury Management Policy Statement for 2023/24 is attached at Appendix 2.
- The Council is required to keep its Treasury Management Practices attached at Appendix 3 up to date and these procedures for management of Treasury Management processes are kept under regular review by the team.

Recommendations

1. Cabinet is recommended to note and endorse the Treasury Management interim report for the period 1st April to 31st December 2022.
2. Cabinet recommends to Council to approve the policy for making Minimum Revenue Provision in 2023/24.
3. Cabinet recommends to Council to approve the proposed 2023/24 Treasury Management and Investment Strategy including the following specific resolutions (detailed in Appendix 1)

- The Authorised Limit for External Debt be set at £225.439m for 2022/23, £247.141m for 2023/24, £276.773m for 2024/25 and £305.927m for 2025/26
- The Operational Boundary for External Debt be set at £212.292m for 2022/23, £234.021m for 2023/24, £263.349m for 2024/25 and £292.295m for 2025/26.
- The Section 151 Officer be given delegated authority within the total Authorised Limit and Operational Boundary as estimated for individual years to effect movement between the separately agreed limits for borrowing and other long term liabilities.
- An upper limit of £10m for 2022/23, £10m for 2023/24, £10m in 2024/25 and £10m in 2025/26 is set for total principal sums invested for over 364 days.
- The amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate for 2023/24 be set as:

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

- The Prudential Indicators set out in Appendix 1 be approved.
- The Treasury Management Policy Statement set out in Appendix 2 be approved.

4. Cabinet is recommended to note the Treasury Management Practices set out in Appendix 3.

Reasons for Recommendations

1. To present the Treasury Management Interim Report.

2. To agree the basis of the Minimum Revenue Provision calculation for 2023/24.
3. The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.
4. To ensure the Treasury Management Practices are reviewed regularly in accordance line with the Treasury Management in the Public Services: Code of Practice and Cross-Sectional Guidance Notes (2021 Edition).

1. Background

1.1 The Council is required to operate a balanced budget, which broadly means that cash income raised during the year will meet cash expenditure. A key function 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 security and adequate liquidity initially before considering investment return.

1.2 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 to do so, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the Treasury Management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity to meet spending commitments as they fall due, either for 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 General Fund Balance.

1.4 The Welsh Government provides the Council with a General Capital Funding Grant and the Council is also advised of a level of borrowing that Welsh Government is prepared to fund via the Revenue Support Grant Settlement (supported borrowing). If the Council wishes to borrow more than this level to increase its capital expenditure, then it can. However, it will either fund the additional costs of borrowing through revenue savings in other services or increases in Council Tax.

1.5 To manage this increased flexibility, Part 1 of the Local Government Act 2003 requires local authorities to have regard to the Prudential Code, which has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice.

1.6 The key objectives of the fully revised Prudential Code are to ensure that:

- The capital investment plans of local authorities are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels; and
- Treasury management decisions are taken in accordance with professional good practice.

1.7 The key objectives of the revised Treasury Management Code are to meet the need of Local Authorities to provide a clear definition of the treasury activities. The update reflects the changes in an increasingly complex environment and regulations, increasing the need for documenting and retaining knowledge and skills, as well as developing areas such as environmental, social and governance considerations.

1.8 CIPFA published the revised Codes on 20th December 2021 and has stated that the revisions need to be included in the reporting framework from the 2023/24 financial year. The Authority, therefore, must have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and any related reports during the financial year, which are taken to Full Council for approval.

2. Key Issues for Consideration

Treasury Management Reporting

2.1 On 20th December 2021 CIPFA published its revised edition of The Prudential Code together with the revised Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes. The Authority formally adopted this new legislation at Full Council on 5th December 2022 Minute No 500. Together with the Welsh Government revised guidance on Local Government Investments (April 2010), the Authority is required to receive and approve as a minimum three main treasury reports each year which incorporate a variety of policies, estimates and actuals. All reports will be reviewed at Cabinet and Scrutiny Committee before being reported to Council. These are as follows:

Treasury Management & Investment Strategy

2.2 A report presented and approved before the start of the financial year which is forward looking and covers the Authority's:

- Capital Plans (including prudential indicators)
- Minimum Revenue Provision (MRP)
- The Borrowing Strategy
- Investment Strategy

Mid-Year Treasury Management Report

2.3 A progress report which updates members on Council's treasury activities to date and to provide an opportunity to revise policy or prudential indicators if required.

Annual Treasury Management Report

2.4 A backward looking review report comparing actual outturn to estimates together with a selection of actual prudential and treasury indicators.

2.5 In addition, the 2021 revised Treasury Management Code requires the Council to implement the following all of which are addressed in either the Treasury Management Strategy, (Appendix1) Treasury Management Policy Statement (Appendix 2) or Capital Strategy (a separate report included on this agenda).

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.
- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The s151 Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.
- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.

- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.

2.6 The proposed Treasury Management and Investment Strategy for 2023/24, is attached at Appendix 1. The Treasury Management Strategy itself covers a rolling period of three years and is intended to link into the Medium Term Financial Planning process. The Investment Strategy covers the next financial year. The document also includes several statutory Prudential Indicators that may be used to support and record local decision making.

2.7 The CIPFA LAASAC Local Authority Accounting Code Board set the much delayed implementation of IFRS16 which deals with the way the Council accounts for its lease arrangements 1st April 2024, the 2024/25 financial year. IFRS16 is an accounting standard that will bring the assets and liabilities associated with the Council's lease assets on balance sheet. In the context of this delay the Council continues to undertake an assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements. These will be incorporated into the strategy for 2024/25.

Proposed Strategy 2023/24

Balance Sheet Projections

2.8 To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2023/24 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2023/24 to 2027/28.

2.9 On 31st March 2022 Capital Financing Requirement was £197.674m of which 22% or £44.328m was internally borrowed. The Council had external borrowing of £153.347m.

2.10 It is important that the level of Internal Borrowing as a percentage of the total borrowing requirement is kept under review by the Council to monitor the interest rate risk that the Council is exposed to.

2.11 As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of external borrowing required in future years. The level of external borrowing is projected to increase as the Council commits to further prudential borrowing, repays existing debt and the balances available to fund current supported borrowing reduces.

	2023/24	2024/25	2025/26	2026/27	2027/28

	£M	£M	£M	£M	£M
Capital Financing Requirement	214.167	245.804	275.646	283.449	287.809
Less External Borrowing	-177.544	-216.122	-248.647	-256.843	-261.149
Internal Borrowing	**36.623**	**29.682**	**26.999**	**26.606**	**26.660**
Internal Borrowing as a % of Capital Financing Requirement	**17%**	**12%**	**10%**	**9%**	**9%**
Reserves, Capital Balances and Provisions	64.663	58.179	56.611	56.063	58.804
Capital Receipts	3.616	3.548	2.268	2.113	2.958
Total Cash Backed Reserves and Provisions	**68.279**	**61.727**	**58.879**	**58.176**	**63.187**
Less External Investments Target	-30.000	-30.000	-30.000	-30.000	-30.000
Balance Available for Internal Borrowing	**38.279**	**31.727**	**28.879**	**28.176**	**28.804**
Working Capital Surplus	-2.000	-2.000	-2.000	-2.000	-2.000
Projected External Investments	31.656	32.045	31.880	31.750	32.144
Total Projected Investments Balance	**29.656**	**30.045**	**29.880**	**29.570**	**30.144**

Borrowing Strategy

2.12 The Council's approach to the borrowing requirements in recent years on the advice of the Council's Treasury Management adviser has been to adopt a policy of avoiding new external borrowing by running down spare cash balances and reserves to finance capital expenditure. This policy has been based on the high levels of reserves held by the Council. The Council will continue to internally borrow to finance the capital programme for as long as it has the capacity to do so. 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.

2.13 The Council's Final Capital Proposals 2023/24 to 2027/28 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £38.916m for the Council Fund and £88.299m for HRA.

Scheme	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
	£M	**£M**	**£M**	**£M**	**£M**	**£M**
General Fund						
Supported Borrowing	3.451	3.452	3.451	3.451	3.451	17.256
Unsupported Borrowing						
Sustainable Communities for Learning	1.808	1.993	0.000	0.000	0.000	3.801
Sustainable Communities for Learning Pipeline Schemes	0.225	2.084	7.655	0.511	0.000	10.476
City Deal	0.608	1.835	2.594	0.000	0.000	5.037
Vehicles	0.846	0.000	0.000	0.000	0.000	0.846
Buttrills Changing Rooms	0.150	1.350	0.000	0.000	0.000	1.500
Total General Fund	**7.088**	**10.714**	**13.700**	**3.962**	**3.451**	**38.916**
Housing Revenue Account						
Housing Revenue Account	17.193	27.322	23.180	11.571	9.033	88.299
Total New Borrowing	**24.281**	**38.036**	**36.880**	**15.533**	**12.484**	**127.214**

2.14 The Council is also projecting to use £8.891m of Capital receipts between 2023/24 and 2027/28. In addition, as part of the Final Revenue Proposals for 2023/24 the Council sets out a reduction in its reserves of 53% or £49m to 31 March 2028. This reduces the Council's ability to finance capital programme through internal borrowing.

2.15 Another factor influencing the Council's borrowing strategy is the high level of maturing debt on the Council's existing borrowing over the coming years which is £41.398m between 2023/24 and 2027/28.

2.16 Taking these factors into account and the Council's requirement to hold approximately £30m in investment balances, the Council's additional external borrowing requirement will be £151.214m over the coming five years as set out in the table below. Balance Sheet projections for the period of the Strategy are set out in paragraphs 2.8 to 2.11 of this report.

	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
	£M	**£M**	**£M**	**£M**	**£0M**	**£M**
Net Borrowing	24.281	38.036	36.880	15.533	12.484	127.214
Replacement Borrowing	12.000	8.000	2.000	2.000	0.000	24.000
Total External Borrowing	**36.281**	**46.036**	**38.880**	**17.533**	**12.484**	**151.214**

2.17 The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will need to keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing. Whilst it is highly likely that any new borrowing will be carried out with the PWLB, shorter term financing and alternative providers will be considered.

Investment Strategy

2.18 As set out in the Council's Balance Sheet projections in paragraphs 2.8 to 2.11, the Council, following discussions with Link Asset Management Ltd., will seek to maintain approximately £30m investment balance in addition to any working capital surplus during the period. The accuracy of these estimates will again be impacted by the use of reserves as planned and the delivery of the capital programme as profiled.

2.19 The Council’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

2.20 The Council policy is to end each day with a nil current bank account closing balance ensuring all surplus cash is always appropriately invested and investment returns are maximised.

2.21 The Council will take the "Investment Ladder" approach when placing investments during 2023/24 which ensures that maturities are spread out throughout the financial year. In a rising interest rate environment, the regular stream of maturing investments brought about by this approach should provide opportunities to consistently improve underlying yield, while still allowing flexibility to adjust if market circumstances alter.

2.22 In 2023/24 the Council will place investments with the counterparties below. Although Council may also consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

- Debt Management Account Deposit Facility (DMADF) of the Bank of England
- UK Treasury Bills
- UK Local Authorities (including Police and Fire Authorities)
- Money Market Funds
- Instant Access & Monthly Bonus Accounts
- Santander Bank PLC Corporate Notice Accounts

2.23 The Council will continually review the financial stability of all parties with whom it places investments.

2.24 Although not guaranteed by the UK Government, if a Local Authority with whom the Council has placed an investment were to default on repayment, the Council would have recourse to UK Government under the Local Government Act 2003 to collect any outstanding sums.

2.25 The Treasury Management section will in 2023/24 retain the maximum principal investment at £5m in any one counterparty and normally will invest up to a period of 12 months with Local Authorities (including Fire and Police Authorities). Where appropriate the Council will consider opportunities to invest for a longer period not exceeding two years in consultation with the Treasury Management Advisers. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.

2.26 CCLA Investment Management Ltd and Federated Hermes UK operate Money Market Funds on behalf of the Council. Both are domiciled in the UK. The maximum investment in each is £10m.

2.27 The instant access and monthly bonus accounts are held with Lloyds Bank PLC. One of these accounts offers a small bonus for deposits placed for more than one month. Both are low interest yielding accounts but have the benefit of instant access to the funds deposited. The maximum investment in each account is £5m.

2.28 The corporate notice accounts (35, 95 and 180 day) are held with Santander PLC. Investments yield a more favourable rate of interest on the initial deposit and then a lower yield when the appropriate period of notice is requested prior to the withdrawal of funds. The maximum total investment that can be placed with Santander PLC at any time is £10m.

2.29 The Council will continue to use credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality. In addition, regard will be given to other available information on the credit quality of banks and building societies.

Interim Report

2.30 All Treasury Management activities for the period 1st April to 31st December 2022 were in accordance with the Council's approved strategy on Treasury Management. The following table sets out the monies borrowed & repaid during the period.

Loan Type	**Opening Balance**	**Received**	**Repaid**	**Closing Balance**
	01/04/2022			**31/12/2022**
	£M	**£M**	**£M**	**£M**
PWLB	146.502	3.000	-6.203	143.299
LOBO Loans	4.000	0.000	0.000	4.000
WG Government Loans	1.050	0.000	0.000	1.050
Salix Loans	1.695	0.000	-0.171	1.524
Temporary Loans	0.100	0.000	0.000	0.100
Total	**153.347**	**3.000**	**-6.374**	**149.973**

2.31 PWLB loans are all at fixed rates of interest. The rate paid on each loan is largely dependent upon the original duration of the loan and date taken out. The average interest rate on all the Council's outstanding PWLB debt has moved over the period 1st April to 31st December 2022 from 4.51% to 4.47%.

2.32 The LOBO (Lenders Option Borrowers Option) loan represents a non PWLB loan that was advanced to the Council in February 2004 at a rate of interest of 4.5%. This loan is repayable in 2054.

2.33 Welsh Government loans are made up of two interest free loans advanced by Welsh Government, a Concessionary Loan for £500k and a Town Centre Loan for £550k.

2.34 Two loans are included which were originally advanced by Salix for £1,134k & £34k respectively. These have been borrowed to fund energy management schemes, primarily street lighting. Both loans are interest free.

2.35 Temporary loans represent loans that have no fixed maturity date. Current temporary loans have been borrowed from The Vale of Glamorgan Welsh Church Act Fund. Interest is calculated using the Sterling Overnight Index Average Rate (SONIA).

2.36 The Council's investments for the period to 31st December 2022 are set out in the following table.

Investment Counterparty	**Opening Balance**	**Invested**	**Repaid**	**Closing Balance**
	01/04/2022			**31/12/2022**
	£M	**£M**	**£M**	**£M**
Local Authorities	55.500	46.500	-56.000	46.000
Debt Management Office (DMO)	26.650	399.635	-415.685	10.600
Treasury Bills	6.500	51.150	-45.400	12.250
Money Market Funds (MMF)	4.200	90.515	-86.465	8.250
Lloyds Instant Access Accounts	0.020	0.500	-0.500	0.020
Santander Corporate Notice Accounts	0.750	0.000	-0.750	0.000
Total	**93.620**	**588.300**	**-604.800**	**77.120**

2.37 Interest at an average rate of 1.51% and with an estimated yield of £382.128k (including accrued interest from 2021/22) will be received from maturing Local Authority for the first 9 months of 2022/23.

2.38 Interest at an average rate of 1.05% and with an estimated yield of £165.314k (including accrued interest from 2021/22) will be received from maturing Debt Management Deposit Facility investments for the first 9 months of 2022/23.

2.39 The average rate of return on the CCLA Money Market Fund was 1.82% and on the Federated Hermes Money Market Fund 1.88% with estimated yields of £82.325k & £108.273k respectively.

2.40 The Lloyds Instant Access and Monthly Bonus Accounts yielded a return of £0.798k including bonus interest. These accounts have been little utilised during the period under review due to the very poor yield and most of the interest is accrued from 2021/2022.

2.41 At the beginning of 2022/23 Treasury Bills yielded better rates of return without any additional risk and this investment tool was used extensively. The average rate of return from Treasury Bills was 1.51% with an estimated yield of £319.458k including accrued interest for 2021/2022.

2.42 The Council made very limited use of the Santander Notice accounts during the first 9 months of 2022/23 and all funds have now been withdrawn. Interest received from these accounts amounted to £5.110k at an average rate of 1.33%.

Annual Minimum Revenue Provision Statement 2023/24

2.43 Capital expenditure when financed by long term debt incurs two elements of cost being interest and repayment of the principal sum borrowed. The resource the Council must put aside in each year to repay the principal sum borrowed is known as the Minimum Revenue Provision (MRP).

2.44 The Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] require the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The broad aim of the Welsh Government Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

2.45 The following statement incorporates options recommended in the Guidance.

2.46 For supported capital expenditure the Council will implement the "Asset Life Method “of calculating for MRP. MRP will be determined by charging expenditure over the expected useful average life of an asset (40 years) for (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.

2.47 For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life method". MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

2.48 Included in the 2023/24 revenue estimates are principal repayments totalling £387.957k in respect of prudential borrowing (not supported for revenue purposes). The provision made in respect of these schemes is commensurate with the asset life as estimated by the Council's external valuer. Of this funding £61.767k is in respect of Sustainable Communities for Learning £171.428k for refuse vehicles against a £1.2m loan for an expected life of 7 years and £154.762k in respect of loans raised for City Deal over a set period of 20 years.

2.49 The MRP payment on the loan borrowed from Salix SEELS for the boiler refit at Stanwell School will amount to £4.420k in 2023/2024. The loan will be fully repaid in 2028/29. The MRP payment on the loan borrowed from Salix for the Street Lighting Energy Reduction Strategy will amount to £333.222k in 2023/2024. The loan will be fully repaid in 2027/28.

2.50 In addition, £495.354k has been included in respect of the Local Government Borrowing Initiative (LGBI) funding from Welsh Government for Sustainable Communities for Learning, the Local Road Network Improvement scheme and Affordable Housing. The provision in respect of LGBI schemes is commensurate with the applicable Welsh Government funding streams through the Revenue Support Grant. Loans have been raised on an annuity basis so MRP contributions vary annually.

2.51 MRP will be charged at 2% of the outstanding Housing Revenue Account (HRA) Capital Financing Requirement in respect of housing asset incurred pre 2021/22.

2.52 For debt incurred from 2021/22 onwards the HRA will move to an Asset Life method (50 years) for calculating the Minimum Revenue Provision.

2.53 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

2.54 For the education pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed in 2027/28.

2.55 The estimates associated with the Council's lease liability are not reflected in these MRP estimates. IFRS16 is the accounting standard that will bring the assets and liabilities associated with the Council's leased assets onto the balance sheet. However, the CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 for lease arrangements until 1st April 2024, the 2024/25 financial year.

2.56 Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2023 Estimated CFR	**2023/24 Estimated MRP**
	£M	**£M**
General Fund		
Supported Borrowing	108.123	3.026

Prudential Borrowing	11.066	1.119
Total General Fund	**119,189**	**4.145**
Housing Revenue Account Borrowing	76.462	1.621
Total	**195.651**	**5.766**

2.57 The Head of Finance/Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

Treasury Management Policy

2.58 Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming years, account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy. Adherence to its requirements is mandatory for all matters relating to Treasury Management and investments and the Policy for 2023/24 is attached at Appendix 2.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.

3.2 The Treasury Management and Investment Strategy underpins the financial management of the Council and its ability to achieve its Well Being objectives as set out in the Corporate Plan

4. Climate Change and Nature Implications

4.1 The Council's 'Treasury Management Policy has a section detailing Environmental and Social Governance considerations as part of the Council's approach to Treasury Management.

4.2 Councils and the UK Government are implementing policies in response to Climate Change.

4.3 Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

5. Resources and Legal Considerations

Financial

5.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

Employment

5.2 There are no direct employment issues relating to this report

Legal (Including Equalities)

5.3 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory

6. Background Papers

The CIPFA Prudential Code for Capital Finance in Local Authorities (2021 edition).

The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes (2021 Edition.

WG guidance on local authority investments.

Appendix 1

Treasury Management and Investment Strategy 2023/24

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks.

The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2023/24 to 2025/26. The plan forms an integral part of the Council's strategic planning process, linking in with the Medium Term Financial Plan, Capital Strategy and annual budget cycle.

This Treasury Management Strategy has been prepared taking into account the following:

- CIPFA Treasury Management In the Public Services Cross Sectional Guidance Notes 2021 Edition
- CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition
- Local Government Act 2003
- Welsh Government Guidance on Investments

Prudential Code

The key objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how the risks will be managed to levels that are acceptable to the organisation.

To demonstrate the Council has fulfilled these objectives, the Code sets out prudential indicators that should be used and the factors that must be taken into account.

The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

Welsh Government Investment Guidance

The Welsh Government guidance notes lay down the requirements with regard to the need to set out the Council's policies for the prudential management of its investments giving regard to firstly security and secondly liquidity. It covers the definition of specified and non-specified investments and the approach to investment risk.

The Council has a legal obligation under the Local Government Act 2003 to have regard to the Prudential Code and the Welsh Government guidance.

In line with the Welsh Government Guidance this document has been prepared as a single strategy document covering both the requirements of the CIPFA Treasury Management Code and the Welsh Government's guidance.

Revised 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes

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

The revised Treasury Management Code requires an authority to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. This is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.

- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.

- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.

- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HOF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.

- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.

- Confirm a requirement for local authorities to produce an annual Capital Strategy.

Capital Strategy

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

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

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The capital strategy is being reported Cabinet on the same agenda as this report. This is the fourth year that a Capital Strategy has been produced, however for the first time this year, a Draft Capital Strategy was taken to Cabinet on 6th October 2022. The strategy will now be updated bi-annually and evolve over future years.

Reporting Requirements

Treasury Management Reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report)
   The first, and most important report is forward looking and covers:
   - 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 is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

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 above reports are required to be adequately scrutinised before being recommended to Cabinet and Full Council. This role is undertaken by the Corporate Performance & Resources Scrutiny Committee.

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. These reports, specifically, should comprise of updated Treasury and Prudential Indicators. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is also undertaken by the Corporate Performance & Resources Scrutiny Committee.

The Treasury Management Strategy

The Strategy for 2023/24 covers two main areas:

Capital Issues

- Capital expenditure plans and the associated prudential indicators
- Minimum revenue provision (MRP) policy

Treasury Management Issues

* Economic background
* Prospects for interest rates
* Current Treasury Position
* Borrowing Strategy
* Treasury indicators which limit the treasury risk and activities of the Council
* Policy on borrowing in advance of need
* Debt rescheduling
* Management of Housing Revenue Account (HRA) Debt
* Investment Strategy
* Creditworthiness policy
* Other investment tools
* External service providers
* Environmental, Social & Government (ESG) issues
* Treasury Management Training
* City Deal

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

Treasury Management Training

Treasury Management Officers

It is a requirement of the CIPFA Code of Practice that the Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The Head of Finance / Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The training needs of treasury management officers are periodically reviewed and are assessed as part of the staff appraisal process and from the in-house meetings between the Treasury Management Team and the Head of Finance/Section 151 Officer when required. Link Treasury Services Limited provide regular online training seminars to ensure that changes to the Codes of Practice are incorporated into the framework of the Authority's Treasury Management & Investment strategies and are adhered to.Treasury Management officers log all training courses attended in a training folder on the server.

Council Members

The CIPFA Treasury Management Code requires the Head of Finance/Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Code states that all local authorities are expected to have a "formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making".

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

The Council's treasury advisor Link Treasury Services Limited provides treasury management training for Members, the last training courses taking place on March 1st & June 26th, 2022. Further training has been arranged on 27th February 2023.

In further support of the revised training requirements, Members will be required to complete a self-assessment form after the training session on the 27th of February 2023 to assess their knowledge and identify any shortfalls where further training may be required.

As a minimum, applicable to both officers and members, Councils should carry out the following to monitor and review knowledge and skills:

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

Treasury Management Consultants

The Council appointed Link Group, Link Treasury Services Limited as their external treasury management consultants from September 2018. The services received include:

- Advice and guidance on relevant policies, strategies and reports.
- Twice yearly strategy meetings
- Balance Sheet Projections
- Advice on investment decisions.
- Notification of credit ratings and changes.
- Other information on credit quality.
- Advice on debt management decisions.
- Accounting advice.
- Reports on treasury performance.
- Forecasts of interest rates; and
- Training courses.

The Authority recognises that responsibility for treasury management decisions always remains with the Authority and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury management consultants.

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

Capital Expenditure Plans and the Associated Prudential Indicators

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.

Capital Expenditure and Financing

The figures shown in the following table are a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle.

Capital Expenditure	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual £M	**Estimate £M**	**Estimate £M**	**Estimate £M**	**Estimate £M**
Learning & Skills	35.109	31.080	36.697	6.981	1.000
Social Services	1.077	1.069	0.595	1.067	0.725
City Deal	0	0	2.506	1.835	2.594
Environment	14.569	23.638	12.830	3.685	2.260
Resources	5.600	2.670	1.130	0.766	1.419
Place	0	4.992	4.039	1.753	1.605
Pipeline Schemes	0	0	1.152	19.370	39.138
Non HRA total	**56.355**	**63.449**	**58.949**	**35.457**	**48.741**
HRA	10.056	24.731	45.019	40.755	32.257
Total	**66.411**	**88.180**	**103.968**	**76.212**	**83.998**

The estimates reflect the Draft Housing Business Plan Proposals and figures also reflect the Final Capital Proposals.

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

	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**	**£M**
GCF Grant	3.403	4.182	4.478	3.545	2.378
GCF Supported Borrowing	3.429	3.451	3.452	3.452	3.451
GF Reserves & Revenue	1.886	17.222	16.796	0.931	2.900
HRA Reserves & Revenue	2.678	13.281	17.187	7.104	6.715
Prudential Borrowing	0	0	20.221	33.342	29.872
City Deal Prudential Borrowing	0	0	0.608	1.835	2.594
S106	5.473	6.911	6.816	0.763	0.600
Grant	47.043	38.172	27.477	24.872	35.208
Capital Receipt	1.796	4.961	6.933	0.368	0.280
Street Lighting Salix Loan	0.703	0	0	0	0
Net Financing Need For Year CFR	**66.411**	**88.180**	**103.968**	**76.212**	**83.998**

The Council’s Borrowing Need - Capital Financing Requirement (CFR)

The Capital Finance Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and so it’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

The Council's CFR projections are listed below:

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**	**£M**
Non HRA CFR	119.594	119.189	122.133	128.416	137.596
HRA CFR	78.080	76.462	92.034	117.388	138.050
Total CFR	**197.674**	**195.651**	**214.167**	**245.804**	**275.646**

In-Year Movement CFR	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
	£M	**£M**	**£M**	**£M**	**£M**
Non HRA	(226)	(405)	2.944	6.283	9.180
HRA	(861)	(1.618)	15.572	25.354	20.662
Total	**(1.087)**	**(2.023)**	**18.516**	**31.637**	**29.842**

Ratio of General Capital Financing Requirement to Net Revenue Budget

This local indicator demonstrates the total loans the Council has raised to finance the General Fund Capital Programme as a percentage of the Net Revenue Budget as set out below.

	2022/23 Estimate	2023/24 Estimate
	£M	**£M**
Net Revenue Budget	272.558	294.413
General Fund CFR	119.189	122.133
%	**44%**	**41%**

Liability Benchmark

A new prudential indicator to be included in this strategy from 2023/24 is the Liability Benchmark (LB). The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.

The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. CIPFA also recommends that the optimum position for external borrowing should be at a level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.

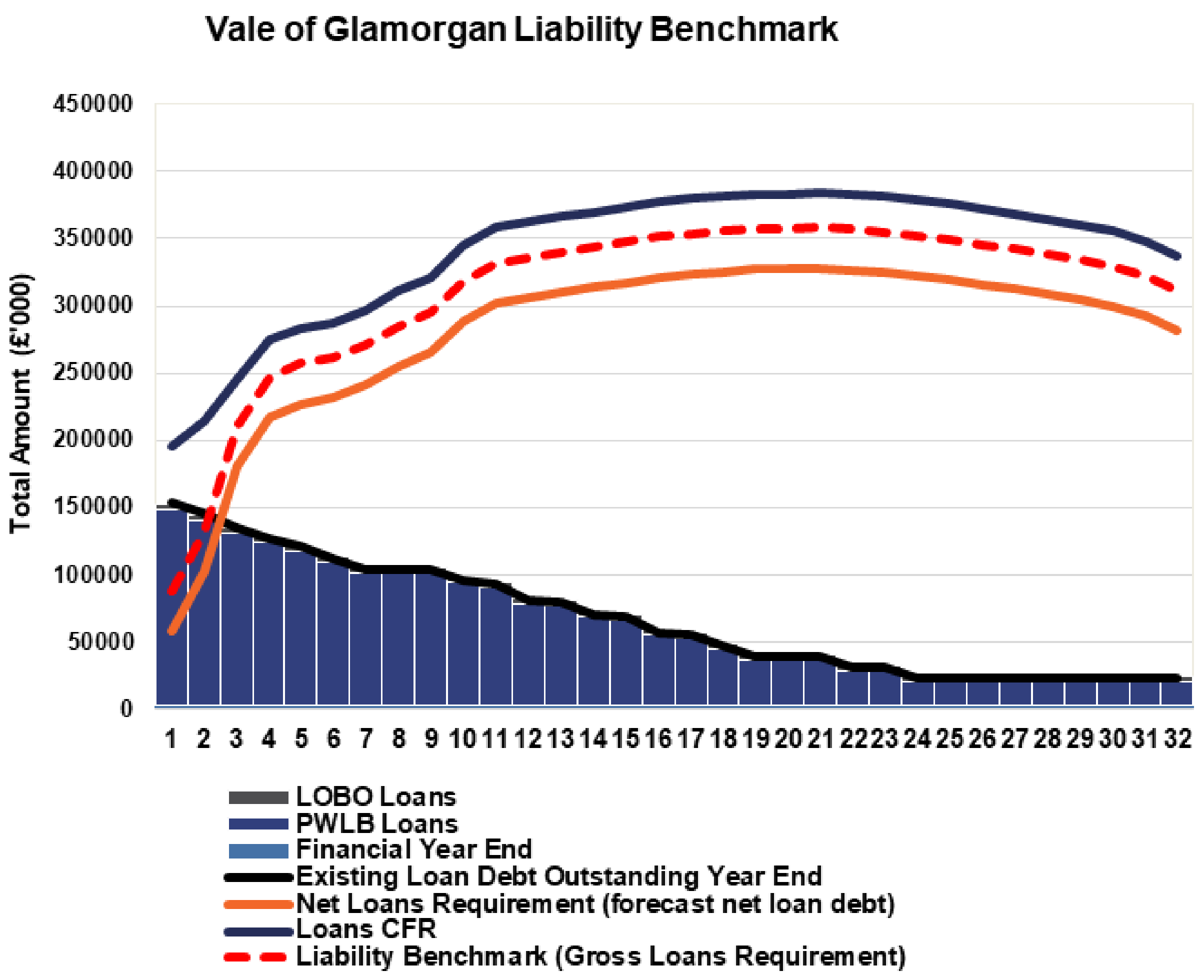
There are four components to the Liability Benchmark

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

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

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

The chart below shows the long term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which in reality would not be the case.



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

	Projected	Projected	Proj U/O Borrowing
	CFR	Ext Debt	
	£000s	£000s	£000s
2021/22	197.70	153.35	44.35
2022/23	195.65	145.38	50.27
2023/24	214.17	134.81	79.36
2024/25	245.80	127.35	118.45
2025/26	275.65	121.00	154.65
2026/27	283.45	111.66	171.79
2027/28	287.81	103.48	184.33
2028/29	296.93	103.42	193.51
2029/30	310.91	103.35	207.56
2030/31	321.30	96.30	225.00
2031/32	344.82	93.09	251.73
2032/33	358.31	81.04	277.27
2033/34	362.40	79.98	282.42
2034/35	366.49	70.36	296.13
2035/36	369.86	68.20	301.66
2036/37	373.77	57.14	316.63
2037/38	377.65	55.06	322.59
2038/39	379.80	46.98	332.82
2039/40	381.73	38.90	342.83
2040/41	383.31	38.82	344.49
2041/42	383.51	38.73	344.78
2042/43	384.28	30.64	353.64
2043/44	382.89	30.55	352.34
2044/45	381.01	22.46	358.55

2045/46	378.70	22.46	356.24
2046/47	376.08	22.46	353.62
2047/48	371.97	22.46	349.51
2048/49	368.42	22.46	345.96
2049/50	364.63	22.46	342.17
2050/51	360.31	22.46	337.85
2051/52	355.46	22.46	333.00
2052/53	348.58	22.46	326.12

The chart demonstrates the 30-year projection of the Authority's Liability Benchmark. Up to year 2 the Councils external debt (the shaded area) exceeds the liability benchmark (the dotted line). This shows the Council is borrowing in excess of the benchmark and not offsetting as much cash as the CIPFA approach suggests. This can be explained as follows:

- The Council has some reserves that are ringfenced and cannot be used to finance capital expenditure.
- Some Council reserves need to be cash backed e.g., Housing Revenue Account (HRA)
- Higher than forecast reserve balances as the use of reserves in recent years was less than projected due to the slippage of the capital programme.
- The Council took PWLB funding in the last 2 years at favourable rates to mitigate future interest rate risk with the Council's borrowing need.

From year 2 onwards the chart shows that external borrowing (the shaded area) falls below the LB (the dotted line). For as long as usable reserve balances are available the Council will maintain an under borrowed position, i.e., the capital borrowing need of the Council will not be being fully financed with external loan debt as cash supporting the Council's reserves, balances and cash flow will be used as an interim measure to finance the Council's borrowing requirement. This is considered prudent as interest rates are predicted to fall over the short term. Council reserve balances are projected to reduce over the period under review and the Council will need to borrow externally up to and above the LB (as not all reserve balances can be used to finance capital expenditure) to finance the capital programme it has committed to throughout the 30 year period.

The Council currently holds significant investments as detailed in this report, but these are expected to reduce as reserves are spent. The Council will maintain a £30m investment buffer as part of the treasury management liquidity benchmark, the value of this buffer will need to be kept under review in the context of the current inflationary factors.

Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**	**£M**
Fund Bals / Reserves	130.780	105.683	64.663	58.179	56.611
Capital Receipts	11.844	9.734	3.616	3.548	2.268
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Core Funds	142.624	115.417	68.279	61.727	58.879
Working Capital	(4.677)	(2.000)	(2.000)	(2.000)	(2.000)
Under Borrowing	(44.327)	(44.317)	(36.623)	(29.682)	(26.999)
Expected Investments	**93.620**	**69.100**	**29.656**	**30.045**	**29.880**

Minimum Revenue Provision (MRP)

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

The Minimum Revenue Provision Guidance issued by Welsh Ministers under section 21(1A) of the Local Government Act 2003 [Revised 2018] require the full Council to approve a MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

Section 35 of the above guidance on MRP commencement states:

"When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP provision until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition."

The Council's MRP Statement is set out below.

Minimum Revenue Provision (MRP) Statement

For supported capital expenditure the Council will implement the "Asset Life Method". MRP will be determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.

For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life method". MRP will be determined by charging the expenditure over the expected useful life (maximum 50 years) of the relevant asset in equal instalments, starting in the year after the asset becomes operational.

MRP will be charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets for debt incurred before 2021/22. From 2021/22 onwards Council will again implement the "Asset Life method" and MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments (50 years), starting in the year after the asset becomes operational. Affordable Housing is the exception where MRP is calculated on an annuity basis.

Capital expenditure incurred during 2022/23 will not be subject to a MRP charge until at the earliest the next financial year.

For the Pipeline schemes it has been assumed that MRP will not be charged until the schemes have completed in 2027/28.

Based on the Authority’s latest estimate of its Capital Financing Requirement on 31st March 2023, the budget for MRP has been set as follows:

	31.03.2023 Estimated CFR	**2023/24 Estimated MRP**
	£M	**£M**
General Fund		
Supported Borrowing	108.123	3.026
Prudential Borrowing	11.066	1.119
Total General Fund	**119.189**	**4.145**
Housing Revenue Account Borrowing	76.462	1.621
Total	**195.651**	**5.766**

MRP Overpayments

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

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

The Authority has not made any cumulative VRP overpayments to date.

Economic Background

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, UK interest rates have been volatile for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the retreat in the bond markets with the UK, Eurozone (EZ) and US 10-year yields all rising by over 200 basis points since the turn of the year. The table below provides a snapshot of the difficulty facing central banks with elevated inflation and labour markets being extra ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	4.00%	3.00%	3.75% - 4%
Gross Domestic Product	-0.2% quarter/quarter Quarter3 (2.4%year/year)	+0.2% quarter/quarter Quarter3 (2.1%year/year)	2.6% Quarter3 Annualised
Inflation Rate	11.1% year/year (Oct 22)	10.0% year/year (Nov 22)	7.7% year/year (Oct 22)
Unemployment Rate	3.6% (Sep 22)	6.6% (Sep 22)	3.7% (Aug 22)

In quarter 2 of 2022 UK Gross Domestic Product (GDP) was revised upwards to +0.2% quarter/quarter but this was quickly reversed in the third quarter, although some of the fall in GDP can be attributed to the additional bank holiday in the wake of the Queen's passing. Nevertheless, Consumer Price Index (CPI) inflation has picked up to what should be a peak reading of 11.1% in October 2022, although with further increases in the gas and electricity price caps pencilled in for April 2023 and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6% despite a net migration increase of circa 500,000. The fact is that with many workers registered as long-term sick, the UK labour force shrunk by circa 500,000 in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the Monetary Policy Committee (MPC) will be concerned that wage inflation will prove just as problematic as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Quarter 3 of 2022 the Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Quarter 4 has seen rates rise to 3% in November 2022 and 3.5% in December 2022. The financial markets expect Bank Rate to hit 4.5% by May 2023.

Globally all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November 2022, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024 but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

Following the Government's fiscal loosening policy announcement on 23rd September 2022 the 30-year gilt yield rose from 3.60% to 5.10% which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. The markets did not like the unfunded tax-cutting and heavy spending policies put forward and the following Autumn Statement of 17th November 2022 gave rise to a net £55bn fiscal tightening. The markets responded favourably, and UK gilt yields have completely reversed those increases.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the government's "fiscal event" on 23rd September 2022, to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

Central Bank Concerns – November 2022

At the start of November 2022, the Federal Bank (FED) pushed up US interest rates by 0.75% to a range of 3.75% - 4% whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the very near future.

Having said that, the press conferences in the US and the UK were very different. The US stated that rates will be elevated and stay higher for longer than markets had expected while the UK stated the exact opposite explaining that the two economies were positioned very differently and therefore the same policy or messaging should be not expected.

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

In addition, the Bank's central message that GDP will fall for eight quarters starting with Quarter 3 2022 may prove to be a little pessimistic. There is a possibility that the £160bn excess savings accumulated by households through the Covid lockdowns could at least to a degree provide a spending buffer for the economy. However, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening or tightening in the interest rate outlook in the US may also have an effect.

Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th November 2022. These are forecasts for certainty rates, gilt yields plus 80 basis points.

	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sept2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026
Bank Rate	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 Month Ave Earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 Month Ave Earnings	4.40	4.50	4.40	4.50	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 Month Ave Earnings	4.50	4.50	4.40	4.50	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5yr PWLB	4..00	4.00	3.90	4.10	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10yr PWLB	4.20	4.20	4.10	4.30	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25yr PWLB	4.60	4.60	4.40	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50yr PWLB	4.30	4.30	4.20	4.20	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Notes to Interest Rate Forecast Table

This forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

It is anticipated that the Bank of England (BOE) will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened, but that timing will be one of fine judgment. If the BOE cut too soon then inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation peaked at close to 11% in quarter 4, 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is a very tight labour market.

The plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening) has started but will focus on the short to medium end of the curve for the present.

Future forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine and possibly the heightened tensions between China, Taiwan & US potentially having a wider and negative economic impact.

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

PWLB Rates

Yield curve movements have become less volatile in quarter 4 of 2022. PWLB 5 to 50 years Certainty Rates are, generally in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted meaning yields are lower at the longer end of the yield curve compared to the short to medium end. Markets have already built in nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook.

- The overall balance of risks to economic growth in the UK is to the downside. The Bank of England projected two years of negative growth in their November 2022 Quarterly Monetary Policy Report.

Downside Risks to Current Forecasts for UK Gilt Yields and PWLB Rates

- Labour and supply shortages prove more enduring and disruptive and depress economic activity. In the near-term this is also an upside risk to inflation and rising gilt yields.
- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- UK / EU trade arrangements could potentially have a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside Risks to Current Forecasts for UK Gilt Yields and PWLB Rate

- The Bank of England is too slow in its pace and strength of increases in Bank Rate allowing inflationary pressures to build up too strongly and for a longer period within the UK economy. This in turn will necessitate an even more rapid series of increases in Bank Rate, faster than current expectations.
- The Government acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly if inflation numbers disappoint on the upside and pull gilt yields up higher than currently forecast.

Borrowing Rates

The long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, it is necessary to review all borrowing strategies. Better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority funding should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and gilt yields, to drop back later in 2023.

Borrowing

The capital expenditure plans previously detailed, highlight the service activity of the Council. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's Capital Strategy. This will involve both the organisation of the cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

Current Portfolio Position

The overall treasury management debt portfolio as at 31 March and 31st December 2022 is shown below.

External Debt Portfolio	31.03.2022	31.03.2022	31.12.2022	31.12.2022
	£M	% Return	£M	% Return
Borrowing				
Public Works Loan Board	146.502	4.6992	143.299	4.4691
LOBOS	4.000	4.5000	4.000	4.5000
WG Loans	1.050	0.0000	1.050	0.0000
Salix Loans	1.695	0.0000	1.524	0.0000
Temporary Loans	0.100	0.1400	0.100	1.7351
Total External Borrowing	**153.347**		**149.973**	

Balance Sheet Projections

To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2023/24 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2023/24 to 2027/28. The Authority will continue the use of reserves and spare cash balances only when appropriate to finance capital expenditure (internal borrowing) as an alternative to borrowing externally.

As well as monitoring the use of internal borrowing these projections consider the levels of funds available for investment and the levels of External Borrowing required in future years.

	2023/24	2024/25	2025/26	2026/27	2027/28
	£M	**£M**	**£M**	**£M**	**£M**
Capital Financing Requirement	214.167	245.804	275.646	283.449	287.809
Less Projected External Borrowing	(177.544)	(216.122)	(248.647)	(256.843)	(261.149)
Internal Borrowing	**36.623**	**29.682**	**26.999**	**26.606**	**26.660**
Internal borrowing as a % of Capital Financing Requirement	**17%**	**12%**	**10%**	**9%**	**9%**
Reserve/Capital Grant Balances/Provisions	64.663	58.179	56.611	56.063	55.846
Capital Receipts	3.616	3.548	2.268	2.113	2.958
Total Cash Backed Reserves and Provisions	**68.279**	**61.727**	**58.879**	**58.176**	**58.804**
Less External Investments Approximate Target	(30.000)	(30.000)	(30.000)	(30.000)	(30.000)
Balance Available for Internal Borrowing	**38.279**	**31.727**	**28.879**	**28.176**	**28.804**
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	31.656	32.045	31.880	31.570	32.144
Total Projected Investments Balance	**29.656**	**30.045**	**29.880**	**29.570**	**30.144**

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Head of Finance/Section 151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

Gross Debt and the Capital Financing Requirement

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

External Debt	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual £M	**Estimate £M**	**Estimate £M**	**Estimate £M**	**Estimate £M**
External Debt as at 1st April	152.735	153.347	151.334	177.544	216.122
Expected Change In Debt	(7.917)	(8.464)	(10.072)	(7.460)	(6.354)
Other Long Term Liabilities	0	0	0	0	0
Expected Change In Other Long Term Liabilities	0	0	0	0	0
New Advances	0.529	3.451	24.282	38.038	36.879
Replacement Borrowing	8.000	3.000	12.000	8.000	2.00
Gross Debt 31st March	**153.347**	**151.334**	**177.544**	**216.122**	**248.647**
The Capital Financing Requirement	197.674	195.651	214.167	245.804	275.646
Internal Borrowing	**(44.327)**	**(44.317)**	**(36.623)**	**(29.682)**	**(26.999)**

Other long term liabilities will be included from 2024/25 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

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. The proposed Operational Boundary for external debt is based upon estimates of the most likely, prudent, but not worst case scenario. The Operational Boundary links to the Council's plans for capital expenditure, estimates of capital financing requirement and the estimate of cash flow requirements for the year. This is the expected maximum limit for external debt. It is lower than the Authorised Limit and cash flow variations may lead to the occasional breach of the Operational Boundary.

Operational Boundary	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
Debt	212.292	234.021	263.349	292.295
Other Long Term Liabilities	0	0	0	0
Total	**212.292**	**234.021**	**263.349**	**292.295**

Other long term liabilities will now be included from 2024/25 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

The Authorised Limit for External Debt

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The Authorised Limit is the affordable borrowing limit determined in compliance with section 3 (1) of the Local Government Act 2003. It is not a limit that the Council will expect to borrow up to on a regular basis and provides headroom over and above the Operational Boundary.

These authorised limits set out below are consistent with the Council's current commitments and proposals for capital expenditure and financing and with its Treasury Management Policy. The estimates are based on most likely prudent but not worst case scenario for external debt with sufficient headroom over and above this to allow for operational management (e.g. unusual cash movement).

Authorised Limit	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
Debt	225.439	247.171	276.773	305.927
Other Long Term Liabilities	0	0	0	0
Total	**225.439**	**247.171**	**276.773**	**305.927**

Borrowing Strategy.

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, the Capital Financing Requirement, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

The Council's Final Capital Proposals 2023/24 to 2027/28 forecast borrowing (supported and unsupported borrowing) in the period are set out in the table below totalling £127.214m (£88.299m of which is required for HRA). The Council is also projecting to use £8.891m of Capital receipts between 2023/24 and 2027/28.

Scheme	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
	£M	£M	£M	£M	**£M**	£M
General Fund						
General Capital Funding Supported Borrowing	3.451	3.452	3.451	3.451	3.451	17.256
Unsupported Borrowing						
Sustainable Communities for Learning	1.808	1.993	0	0	0	3.801
Sustainable Communities for Learning Pipeline Schemes	0.225	2.084	7.655	0.511	0	10.476
City Deal	0.608	1.835	2.594	0	0	5.037
Vehicles	0.846	0	0	0	0	0.846
Buttrills Changing Room Pipeline Scheme	0.150	1.350	0	0	0	1.500
Total General Fund	**7.088**	**10.714**	**13.700**	**3.962**	**3.451**	**38.916**
Housing Revenue Account						
Housing Revenue Account	17.193	27.322	23.180	11.571	9.033	88.299
Total Capital Programme Borrowing	**24.281**	**38.036**	**36.880**	**15.533**	**12.484**	**127.214**

In addition, as part of the Initial Revenue Proposals 2023/24 the Council is projecting a reduction in its reserves, capital grant balances and provisions of 53% or £49m from 2022/23 levels by 2027/28.

Another factor influencing the Council's borrowing strategy is the high level of maturities on the Council's existing external debt over the coming years which have been calculated to be £41.398m between 2023/24 and 2027/28.

Taking these factors into account and the Council's requirement to hold approximately £30m in investment balances, the Council's additional external borrowing requirement is £151.214m as set out in the borrowing requirement table below for the period 2023/24 to 2027/28. This will need to be managed carefully to minimise the interest and liquidity risk to the Council.

Borrowing Requirement

The Borrowing Requirement represents the estimated amount that the Council will borrow externally for this year and the next 3 years.

	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Total**
	£M	£M	£M	£M	**£M**	£M
New Borrowing	24.281	38.036	36.880	15.533	12.484	127.214
Replacement Borrowing	12.000	8.000	2.000	2.000	0	24.000
Total External Borrowing	36.281	46.036	38.880	17.533	12.484	151.214

The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing.

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

- If it is felt that there is a significant risk of a sharp fall in BORROWING RATES (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it is felt that there is a significant risk of a much sharper rise in BORROWING RATES than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions in respect of new external borrowing will be reported to the Cabinet.

Policy on Borrowing in Advance of Need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Having considered the advice of the Council's treasury advisors, the Council will not be seeking to borrow sums in advance of need unless it is considered to be of significant economic benefit by the Section 151 Officer.

The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

Debt Rescheduling / Repayment

The Public Works Loan Board allows authorities to prematurely repay loans. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings.
- Helping to fulfil the Treasury Strategy; and
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely.

All rescheduling will be approved by the Section 151 Officer under delegated powers as set out in the Council's Constitution (Officer Delegations) and reported to Cabinet as part of the agreed monitoring procedure at the earliest meeting following its action.

Rescheduling of current borrowing in the Authority's debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

The Authority’s treasury management consultants Link Treasury Services Limited will keep the Authority s informed as to the relative merits of each of these alternative funding sources.

Approved Methods of Raising Capital Finance

The Local Government Act 2003 provides that a local authority may borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The Council will continue to borrow from the following sources: -

- by overdraft or short term from Financial Services Authority authorised banks.
- from the Public Works Loan Board (PWLB);
- by means of loan instruments.
- other local authorities.
- from the Municipal Bond Agency
- stock issues.
- short – term borrowing from any source.
- other credit arrangements; and
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

LOBO (Lender Option Borrower’s Option)

The Council holds a £4M of LOBO (Lender Option Borrower’s Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan. The

Council will take the option to repay this LOBO loans at no cost if it can do so. Total borrowing via LOBO loans will be limited to £4m.

Affordability Prudential Indicators

The objective of the affordability indicator is to assess the affordability of the Council's investment plans by considering the impact on the council tax and for the HRA, the level of rent to be charged. To achieve this, the Council has to consider all of the resources available to it, together with the totality of its capital plans, revenue income and revenue expenditure forecast for the coming year and the following two years. These should be rolling scenarios and not fixed for three years.

The indicators in this category which are required to be approved by Council are set out below:

Ratio of Relevant Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of any investment income.

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
HRA (Rents)	21.66	21.74	22.51	26.47	30.94
Target HRA	40.00	40.00	40.00	40.00	40.00

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
Non HRA (Council tax)	3.10	2.84	2.88	3.11	3.14
Target Non HRA	5.00	5.00	5.00	5.00	5.00

The analysis above shows the Council Fund implications remain relatively stable throughout the period. The HRA cost is increasing over the period in line with the aspirations for maintenance and regeneration set out in the draft Housing Business Plan. The plan demonstrates that this level of investment is affordable over the 30 year period of the plan.

Upper Limit for Principal Sums Invested for Over a Year

	2022/23 Probable Outturn £000	**2023/24 Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**
Upper limit principal sums invested for over a year (per maturity date)	0	10,000	10,000	10,000

No borrowing longer than 364 days has been undertaken during 2022/2023 as currently the UK economy is amid an interest rate increase environment.

Fixed Rate Borrowing Maturity Limit for External Debt

Amount of Projected Borrowing that is Fixed Rate Maturing in Each Period as a Percentage of Total Projected Borrowing that is Fixed Rate for 2021/22	**Upper Limit**	**Lower Limit**
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%

Housing Revenue Account Prudential Indicators

Welsh Government have been working with the WLGA, a group of local authority representatives and Savills to develop a set of prudential borrowing indicators in the absence of a borrowing cap and with increasing funding demands placed on the HRA business plan. These measures have not yet been agreed but the aim is to include these in some way in business plan submissions in future years. At present the Council reports to WG with the following prudential indicators:

- Loan to Value
- Debt: Turnover
- Debt: Net Revenue
- Interest Cover
-

LIBOR Transition to Sterling Overnight Index Average (SONIA)

From 2021/22 the Council will use the SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. SONIA is the Working Group on Sterling Risk Free Reference Rates' preferred benchmark for the transition to sterling risk-free rates from Libor. To support the Risk-Free Rate transition in sterling markets the Bank of England began publishing the SONIA Compounded Index from 3 August 2020. This simplifies the calculation of compounded interest rates and in doing so provides a standardised basis through its publication as an official source.

Policy on Apportioning Interest to the HRA

Interest will continue to be charged to the HRA using a consolidated rate.

Investments

Investing in a Post-Pandemic Inflationary Environment

Developed economies have been open for some months now post-pandemic, but the degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade. On the monetary policy front matters are complex, with the October 2022 UK CPI reading now standing at 11.1%, and expected to fall only slowly through 2023 and 2024.

The Bank of England's Monetary Policy Committee made clear at its November 2022 meeting that further rate increases are in the pipeline and markets expect Bank Rate to peak at around 4.5%. Investing in 2023/24, is therefore likely to be conducted, first, in a rising interest rate environment, but also potentially a falling interest rate environment at the back end of the financial year, depending on how quickly inflation falls back and how growth performs.

CIPFA 2021 revised Treasury Management Codes of Practice

The CIPFA 2021 revised Treasury Management Codes of Practice requires all investments and investment income to be attributed to one of the following three purposes:

Treasury Management

This type of investment arises from the Authority's cash flows or treasury risk management activity and represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service Delivery

These are Investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is “either related to the financial viability of the project in question or otherwise incidental to the primary purpose”.

Commercial Return

These are investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority’s financial capacity, in that ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Any non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

The Annual Investment Strategy

The Annual Investment strategy of the Council will have regard to the availability of capital receipts and financial reserves. The Investment Strategy is determined in parallel with Borrowing Strategy

The Council’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

The Council policy is to end each day with a Nil current bank account closing balance ensuring all surplus cash is always appropriately invested and investment returns are maximised.

The Council will take the “Investment Ladder” approach when placing investments during 2023/24 which ensures that maturities are spread out throughout the financial year. In a rising interest rate environment, the regular stream of maturing investments brought about by this approach should provide opportunities to consistently improve underlying yield, while still allowing flexibility to adjust if market circumstances alter.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods. Should the Council decide to undertake this option then this will be reported to Cabinet at the earliest opportunity and will be within the limits set out in prudential indicator 8.

As set out in the Council's Balance Sheet projections, the Council, following discussions with Link Asset Management Ltd. will seek to maintain a minimum £30m investment balance in addition to any working capital surplus during the period. The accuracy of these estimates will again be impacted by the use of reserves as planned and the delivery of the capital programme as profiled.

In 2023/24 the Council will place investments with:

- the Debt Management Account Deposit Facility (DMADF) of the Bank of England
- UK Local Authorities (including Police and Fire Authorities)
- UK Treasury Bills

- Money Market Funds (MMFS)
- Instant Access Accounts held with Lloyds Bank PLC
- Corporate Notice Account held with Santander Bank PLC.

Treasury Bills

The Authority commenced the placement of funds with Treasury Bills in November 2019 after engaging the services of King & Shaxson Ltd.

King & Shaxson Ltd provide a tailor made service for local authorities together with the custodian account required to utilise this investment tool. They currently are the only provider of this service in the market currently.

A Treasury Bill (T-Bill) is a short-term debt obligation backed by the Treasury Department of the U.K. Government with a maturity of less than one year, sold in denominations of a minimum of £500,000 with £50,000 increments thereafter. There is a weekly auction held on a Friday with settlement due the following Monday. T-bills have various maturities and are issued at a discount from par. Treasury Bills may also be purchased on the secondary market.

Contracts for financial services related to the issue or transfer of shares and other instruments are excluded contracts under the Public Contracts Regulations 2015 legislation. Services in relation to our investment in Treasury Bills fall into this exclusion.

Money Market Funds

Money Market Funds (MMFs) are pooled funds that invest in short- term debt instruments. They provide the benefits of pooled investment as investors can participate in a more diverse and high quality portfolio than they would otherwise individually. Each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund.

The principal objectives of MMF's are preservation of capital, very high liquidity and competitive returns commensurate with security and liquidity. The most important characteristic of a MMF is the highly diversified, high credit quality investments in the fund.

Assets that a MMF may invest in are securities issued by sovereign governments, treasury bills, investments with the DMADF, certificates of deposits issued by financial institutions, floating rate and medium term notes, commercial paper and very short dated term deposits.

The maximum funds to be deposited in an individual MMF will be £10m.

The Council continue to utilise CCLA Investment Management Ltd and Federated Hermes UK to operate Money Market Funds on behalf of the Council. Both are domiciled in the UK.

Lloyds Instant Access Accounts

The Council has limited the use of the two Lloyds Instant Accounts during 2022/23, as these accounts offer a very low rate of return but they do have the benefit of instant availability funds if required.

Santander Corporate Notice Accounts

The Council opened three Corporate Notice Accounts (35,95 and 180 day) with Santander Bank PLC. Investments yield a more favourable rate of interest on the initial deposit and then a lower yield when the appropriate period of notice is requested. The maximum total investment that can be placed in these accounts at any one time is £10m.

The Council may also consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

The Council will continually review the financial stability of all parties with whom it places investments. Although not guaranteed by the UK Government if a Local Authority with whom the Council has placed an investment were to default on repayment, the Council would have recourse under the Local Government Act 2003 to collect any outstanding sums.

The Treasury Management section will in 2023/24 retain the maximum principal investment set at £5m per institution but may extend the maximum period of investment to 24 months with Local Authorities up to a maximum of £10m if it is considered prudent to do so. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports. The maximum principal that may be invested in MMFs, Lloyds Instant Access and Monthly Bonus Accounts and Santander Notice Accounts will be set at £10m.

The Council will continue to use credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investment. The lowest available credit rating will be used to determine credit quality. In addition, regard will be given to other available information on the credit quality of banks and building societies.

Investment Earnings & Performance

Investment returns are likely to increase in line with the series of bank base rate increases during this accounting period as forecast. in this report. The Authority's investment portfolio is appraised every month by Link Treasury Services Limited, the Council's appointed treasury consultants. As well as providing the average yield on investments for the month their report also focuses on portfolio composition and any investment risk linked to the portfolio. A monthly economic summary is also provided.

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	4.30%
2024/25	3.20%
2025/26	2.60%
2026/27	2.50%
2027/28	2.80%

Negative Investment Rates

The Bank of England is battling to control inflation which hit 10.1% in November 2022 over five times its target rate of 2%. The UK Economy has entered a period of monetary tightening and bank rate is currently expected to peak at 4.5% in the summer of 2023. In the circumstances negative interest rates will not feature during this period under review.

Management of Risk

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

The Council has borrowed and invested significant sums of money and is therefore exposed to financial risks such as the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term as interest rates are currently rising in a bid to rid the economy of inflationary pressures and to cover increasing cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions.

The Council's Investment Policy currently for 2022/2023 has regard to the following: -

- 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 CIPFA Treasury Management Code").

- The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W 319) (as amended); and

- CIPFA Treasury Management Guidance Notes 2021.

The Welsh Government Guidance and the CIPFA Code of Practice place a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

Creditworthiness

Credit Rating Criteria

The Council uses credit ratings (long and short term) from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. This allows the Council to generate a list of highly creditworthy counterparties and enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings. The lowest available credit rating will be used to determine credit quality. Credit ratings are obtained and monitored by the Council's Treasury Advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the minimum credit rating criteria then:

- No new investments will be made.
- Any existing investments that can be recalled at no cost will be recalled; and
- Full consideration will be given to the recall of any other existing investments.

The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an organisations credit rating with a view to downgrading it so that it is likely to fall below the Council's minimum criteria.

The categories and definitions are set out below:

Fitch's Credit Ratings and Definitions

Short Term Investments		
F1	Highest short-term credit quality	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality	Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Credit Quality	Capacity for timely payment is adequate, however near term changes could result in a reduction to non investment grade.
B	Speculative	Minimal Capacity for timely payment, vulnerability to near term adverse changes.
Long Term Investments		

AAA	Highest credit quality	Lowest expectation of default risk. Exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events.
AA:	Very high credit quality.	Very low default risk with very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A:	High credit quality.	Expectations of low default risk. The capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality	Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative	material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Moody's Credit Rating and Definitions

Short Term Investments	
P1	Prime 1 - Issuers have a superior ability to repay short term debt obligations
P2	Prime 2 – Issuers have a strong ability to repay short term debt obligations
P3	Prime 3 – Issuers have an acceptable ability to repay short term debt obligations

NP	Not Prime – No prime rating
Long Term Investments	
Aaa	Judged to be highest quality and subject to the lowest level of risk
Aa	Judged to be high quality and subject to very low credit risk
A	Judged to be upper medium grade and subject to low credit risk
Baa	Judged to be medium, grade and subject to moderate credit risk
Ba	Judged to be speculative and subject to high credit risk
B	Considered speculative of poor standing and are subject to very high credit risk
Caa	Judged to be speculative of poor standing and are subject to very high credit risk
Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal or interest.
C	Lowest rated and are typically in default

Standard and Poor's Credit Ratings and Definitions

AAA	Investment Grade – Extremely strong capacity to meet financial commitments
AA	Investment Grade – Very strong capacity to meet financial commitments
A	Investment Grade – Strong capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BBB	Investment Grade – Adequate capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BB	Speculative Grade – Less vulnerable in the near term but faces major ongoing uncertainties

B	Speculative Grade – Vulnerable to adverse conditions but still has capacity to meet financial commitments
CCC	Speculative Grade – Currently vulnerable and dependent on favourable conditions to meet financial commitments
CC	Speculative Grade – Highly vulnerable default has not yet occurred but is expected to as a virtual certainty
C	Speculative Grade –Currently highly vulnerable to non payment
D	Payment breach of a financial commitment or in breach of an imputed promise

Other Information

Additional requirements under the Code require the Council to supplement credit rating information therefore credit ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its treasury advisers to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other Information Sources

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Categories of Investments

The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. Investments fall into 1 of 2 categories, specified and non-specified investments.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The WG Guidance defines an investment as a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e. due or available to be repaid within 12 months).
- The making of the investment is not defined as capital expenditure by virtue of regulation 20 (1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W319) (as amended)
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
    - The United Kingdom Government.
    - A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland.
    - Police & Fire Authorities.
    - A parish or community council.

The Council defines “high credit quality” organisations and securities as those having a long term credit rating of A- or higher that are domiciled in the UK or a Non UK country with a sovereign rating of AA- or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any investment not meeting the definition of a specified investment is classed as Non-Specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation.

Non-specified investments will therefore be limited to long-term investments. The Council does not currently hold any non-specified investments but will consider opportunities in this area subject to the advice of the Council's treasury consultants and the views of the Head of Finance / Section 151 Officer.

Sovereign Rating

The UK's sovereign rating is AA- long term. Having seen an orderly Brexit on the 31st of December 2020 following a trade deal on the 24th of December 2020 with European Union (EU), the Council will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. This approach will not limit the number of UK counterparties available to the Council. To ensure the Council's credit risk is not increased outside the UK, the sovereign rating requirement for investments to Non UK countries will also be maintained at a minimum of AA-.

Investment Limits

	Short Term (under 12 months)	Long Term (12 months+)
UK Government incl. Treasury Bills, Gilts and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation.	£5M per organisation
UK Fire & Police Authorities	£5M per organisation.	£5M per organisation
Money Market Funds (AAA)	£10M per organisation	Not Applicable
UK and Foreign Financial Institutions (A-)	£10M per organisation	£5M per organisation
UK Call Bank Accounts in UK Banks	£10M per organisation	Not Applicable

The Authority does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2023/24. The total investment in individual UK institutions that are part of the same UK owned group will not exceed the limit set out in the table above.

Liquidity of Investments

The Council's expenditure programmes together with the maintenance of adequate reserves etc. will be used to determine the maximum period for which funds may prudently be committed. The maximum period for which funds may prudently be committed in any individual investment shall not exceed 10 years.

The Council's investment portfolio for the period to 31st December 2022 is set out below

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Treasury Portfolio - Investments	31.03.2022	31.03.2022	31.12.2022	31.12.2022
	£M	% Return	£M	% Return
Local Authorities	55.500	0.1486	43.000	1.5057
Debt Management Account Deposit Facility	26.650	0.1178	13.600	1.0451
Treasury Bills	6.500	0.2474	12.250	1.5112
CCLA Money Market Funds	4.100	0.1878	1.175	1.8188
Federated Hermes Money Market Fund	0.100	0.1336	7.075	1.8791
Lloyds Instant Access Account	0.010	0.0100	0.010	0.1820
Lloyds Monthly Bonus Account	0.010	0.0217	0.010	0.1920
Santander Corporate Notice Accounts	0.750	0.1944	0.000	1.3300
Total Investments	**93.620**		**77.120**	

The above analysis shows that the Authority's portfolio shrank by £16.500m or 17.625% during the first 9 months of 2022/23 primarily due to repayment of maturing debt and the use of reserves and balances to fund capital expenditure. In addition, funds due to the Council for expenditure on grant funded projects have not been received from Welsh Government at the time of writing this report.

Whilst the Council has no specific exposure, the Head of Finance/Section 151 Officer has continued to follow closely the emerging picture in relation to several Council's financial positions and continues temporarily to suspend the placement of investments with certain councils. The Section 151 Officer considers that having taken the advice of Link Treasury Services Limited and regarding the provisions in respect of any default set out in the Local Government Act 2003 that it is prudent for the Council to continue to invest with local authorities.

External Fund Managers

External cash or fund managers may be appointed by the Head of Finance/Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are required to comply with:

- The Guidance on Local Government Investments issued by Welsh Government.
- The Authority's Annual Investment Strategy

Use of Financial Derivatives

The Localism Act 2011 includes a general power of competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (.i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Risk Management Strategy.

Cardiff Capital Region City Deal

The Vale of Glamorgan Council is a participant in the Cardiff Capital Region City Deal (CCRD) which has been established between the UK Government, the Welsh Government and 10 local authorities in Southeast Wales. The agreement with the UK and Welsh Governments provide £1.2 billion of which £734m is allocated to the Metro.

CCRD has four key objectives - 5% Gross Value Added growth, 25,000 high-order jobs, £4 billion leverage of public and private sector investment and demonstration of economic inclusion. To date, approved projects have the potential of achieving up to £1.5bn of leverage. Projects now coming to the fore such as Strength in Places, bring new public and private leverage through sources such as the UKRI Strength in Places Fund. CCR will continue to leverage both public and private funds and will build the partnerships and R&D intensity to continue generating successively high levels of private leverage.

Key highlights for 2022/23 are set out below:

- £50m Strategic Premises Fund launched and first investment crystalized in Ebbw Vale for £1.7m for Pulse Plastics.
- £36.4m purchase and remediation of Aberthaw
- £7m investment in Cyber Innovation Hub
- £3m investment into the Media Cymru consortium
- Unveiling of the CCR Unleash Ambition and Growth conference
- Creation of £50m Innovation Investment Capital fund and launch at Principality Stadium.
- £2.6m Food Sustainability Challenge launched in conjunction with Cardiff and Monmouth.
- £2m Investment in MedTech company Jellagen, £4m into Yoello and £3m for Apex.
- CCR Climate Coalition launched.
- Venture Graduate launched new Accelerator Programme.
- Cyber Masters cohort successfully graduate, and funding agreed for a second year

For more detail on any of the 2022/23 highlights please see the following publication:https://www.cardiffcapitalregion.wales/wp-content/uploads/2023/01/ccr-2022-monthly-milestones.pdf

The Cabinet meeting on 31st January 2023 set out the proposed CCR Annual Business Plan for 2023/24 which constitutes Year 3 of the 5-year Strategic Business Plan approved in December 2020. This plan referred to the following strategies produced by the CCR:

- Build Back Better – playing our part in economic recovery and building resilience.
- Becoming a City Region – strengthening regional economic governance.
- Scaling-up and delivering the City Deal 'peak' Wider Investment Fund pipeline and programme.
- Making the case for Levelling-up CCR.
- Developing the plan for industrial-scale clusters and innovation-led growth.

The total expenditure for the CCR 2023/24 Annual Business Plan is £66.6 Million. It is proposed that this level of expenditure is funded as follows:

- Draw down of HM Treasury Revenue Grant: £8.8 Million.
- Draw down of HM Treasury Capital Grant: £28.2 Million.
- Draw down of Council Contributions: £29.6 Million (The Vale of Glamorgan's Contribution in 2023/24 is £2.5 Million).

The Vale of Glamorgan's share of the estimated total costs (8.5%) is projected to be in the order of £17.9m and will be funded by unsupported borrowing with a 20 year repayment period.

Further detail can be found at Cardiff Capital Region City Deal

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Management Practices for Non-Treasury Investments

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans, supporting service outcomes, investments in subsidiaries and investment property portfolios.

The Council will ensure that all the organisation's investments of this nature are covered in the capital strategy, investment strategy or equivalent and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non treasury investments.

A schedule of the Council's existing non treasury investments (currently limited to the investment in the Big Fresh Catering Company) is set out below;

Investment in Subsidary - Big Fresh Catering Company

On 1st January 2020, the Council set up a Local Authority Trading Company to deliver Catering services called the Big Fresh Catering Company. The Council owns 100% of the company shares. In accordance with WG Investment Guidance this will be classified as a Non Treasury Investment.

IFRS9 – Local Authority Override

The Welsh Government enacted a statutory over-ride from 1st April 2018 for a five-year period until 31st March 2023 following the introduction of IFRS 9 over the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31st March 2023. This was intended to allow authorities to initiate an orderly withdrawal of funds if required.

At the time of writing, it is not known whether the application of the IFRS9 statutory override will be deferred for a further period.

IFRS 16 Leasing

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 which deals with the way the Council accounts for its lease arrangements until 1st April 2024, the 2024/25 financial year.

The revised accounting code requires significant changes for how the Authority accounts for contracts that convey the right of use of an asset for a period. Whereas the Authority currently accounts for all its lessee lease arrangements through revenue income and expenditure, under the new arrangement the Authority will be required to calculate a right of use asset and a corresponding liability which will be included on its balance sheet. The liability will increase the Authority's CFR and the Authority will need to charge MRP which will in practice be equivalent to the principal of the lease. Despite the extensive accounting requirements and disclosures, this change of accounting policy will not impact the bottom line of the accounts. It will however have an impact on the Prudential indicators and MRP estimates included in this Strategy. An assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements is currently being undertaken and it is intended that revised indicators that incorporate these estimates will be reported as part of the Treasury Management Strategy for 2024/25.

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Appendix 2

Treasury Management Policy

Treasury Management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Whilst considerations, such as interest rate forecasts, will inevitably inform the Treasury Management Strategy to be adopted over the coming year(s), account must also be taken of certain fundamental parameters that the Council must work within. These may include political, environmental, social, technical, economic and legislative factors and form the basis of the Treasury Management Policy that underpins the Strategy.

The following statement, therefore, constitutes the Treasury Management Policy of the Council. Adherence to its requirements is mandatory for all matters relating to Treasury management and Investment.

Definition

The Council defines Treasury Management as:

"The management of the Council'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."

Objectives and Purpose

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

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

The objectives of the policy are to: -

- Support the quality and status of Treasury Management; and
- Provide guidance on the proper practices to be employed for Treasury Management.

The purpose of this Policy is to give guidance and advice on such matters as: -

- The allocation of responsibility among the relevant staff.
- Reconciliation of the need for rapid decisions on dealing with the need to be accountable for use of delegated authority.
- Mechanisms to satisfy the statutory obligations placed upon the Monitoring Officer and the Section 151 Officer: and
- Good practice in reporting at various levels in the Council.

Procedure

All investments of money under the Council's control shall be made in the name of the Council or in the name of the nominees approved by the Council. Bearer securities shall be excluded from this regulation, but any purchase of such securities shall be reported to the Council.

All borrowings shall be effected in the name of the Council and must be authorised by the Section 151 Officer (subject to the Policy on Delegation set out below).

All money in the hands of the Council shall be under the control of the Section 151 Officer.

The Section 151 Officer shall be the Council's Registrar of Bonds and shall maintain records of all borrowings of money by the Council.

All officers acting as trustees by virtue of their official position shall deposit all securities, etc. relating to the trust with the Head of Legal Services unless the deed otherwise provides.

Formulation of Treasury Management/Investment Strategy

At or before the start of the financial year, the Section 151 Officer shall report to the Council on the Treasury Management Strategy it is proposed to adopt for the coming financial year (including Prudential Indicators for the coming three financial years). At the same time the Council will consider for adoption for the coming financial year an Annual Investment Strategy.

Borrowing Policy

Revenue budget stability is desirable and with this in mind the Council would usually borrow the majority of its long-term funding needs at long-term fixed rates of interest. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.

The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003 and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment Policy

The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

The Council policy is to end each day with a Nil current bank account closing balance ensuring all surplus cash is always appropriately invested and investment returns are maximised.

The Council will have regard to the Welsh Government Guidance on Local Government Investments and will approve an Investment Strategy each year as part of the Treasury Management strategy. The Strategy will set criteria to determine suitable organisations with which cash may be invested and limits on the amount of cash that may be invested with any one organisation.

Policy on Custodians

To facilitate the use of some approved investment instruments (eg Treasury Bills), the use of custodian facilities are required. The Section 151 Officer may appoint a custodian to administer and safeguard any investments on behalf of the Council providing that this custodian operates at all times within the Authority's Treasury Management Policy & Investment Strategy framework.

Policy on Delegation

All executive decisions on borrowing, investment or financing shall be delegated to the Section 151 and the Deputy Section 151 Officer (in his / her absence) or through the following posts, who shall all be required to act in accordance with CIPFA's "Code for Treasury Management in the Public Services".

W-FS-AA003	Operational Manager Accountant
W-RM-AC015	Senior Accounting Technician
W-RM-AC006	Capital Accountant
W-RM-AC014	Corporate Accountant
W-RM-AC003	Finance Support Manager
W-RM-AC004	HRA Accountant

Review Requirements and Reporting Arrangements

The Section 151 Officer shall report to the Council as follows: -

Before the 31st March each year

- The Treasury Management Prudential Indicators for the forthcoming three years; and
- The Treasury Management Strategy and Annual Investment Strategy for the following year (the Treasury Management Strategy also incorporates the indicators for the forthcoming three years).

A revised Investment Strategy may be prepared if at any time it is considered appropriate.

Monitor and report performance against all forward-looking prudential indicators at least quarterly. (Not required to be reported to Full Council but must be adequately scrutinised by the Corporate Performance & Resources Scrutiny Committee).

A mid-year review during the current year.

As soon as possible after the end of the financial year - report on the outturn for the previous year.

The Section 151 Officer shall also report to Cabinet and/or Scrutiny Committee other monitoring reports that are considered necessary to comply with CIPFA's "Code for Treasury Management in the Public Services".

Scheme of Delegation

(i) **Full Council**

- Receiving and reviewing reports on Treasury Management policies, practices and activities; and
- Approval of annual Treasury Management & Investment Strategy.

(ii) **Cabinet**

- Approval of/amendments to the organisation's adopted clauses, Treasury Management Policy Statement and Treasury Management practices;
- Budget consideration and approval;
- Receiving and reviewing regular monitoring reports and acting on recommendations; and

(iii) **Scrutiny Committee**

- Reviewing the Treasury Management policy and procedures and making recommendations to the responsible body.

The Role of the Section 151 Officer

The S151 Officer will be responsible for the following:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular Treasury Management policy reports.
- Submitting budgets and budgets variations.
- 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.
- The appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, 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; and
- Ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management).

- 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
- 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 an 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

Environmental, Social & Governance (ESG) Considerations

Ethical investing is a topic of increasing significance within Treasury Management approaches. However, investment guidance, both statutory and from CIPFA, makes clear that all investment activities must adopt the principles of security, liquidity and yield and therefore ethical issues must play a subordinate role to those priorities.

Project Zero is the Vale of Glamorgan Council's response to the climate change emergency. Project Zero brings together the wide range of work and opportunities available to tackle the climate emergency, reduce the Council's carbon emissions to net zero by 2030 and encourage others to make positive changes. In July 2019, The Council joined Welsh Government and other Local Authorities across the UK in declaring a Climate Emergency in response to the United Nations' Intergovernmental Panel on Climate Change report into the impact of global warming. Since then, the Council has continued to make changes across the organisation embarking on ambitious projects to reduce the Council's carbon emissions and to send a clear message that we must all work together to adapt to and mitigate the effects of climate change.

Most of the Council's investments are placed with the UK Government or Local Authorities. As the majority have declared a climate and nature emergency, the Council are accepting that they are following ESG principles and therefore will continue to place investments with them. Should the Council become aware of any Local Authority that goes against these principles the Council will no longer consider the organisation for investment purposes.

The remainder of the Council's investments are placed with the CCLA & Federated Hermes money market funds domiciled in the UK. Both are AAA rated by the three main credit rating agencies as mentioned earlier in the Investment Strategy. Credit rating agencies now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings Both money market funds recognise their responsibilities concerning ESG and their approach to and policies for ESG are summarised below.

CCLA

CCLA believe that investment markets and in turn, investment returns will only be as healthy as the environment and communities that support them. We therefore focus on some of the world's most pressing challenges in order to build a future that can continue to support sustainable returns for our clients, and outcomes for our planet. CCLA has a long track record of investing responsibly to deliver positive change in company practice and performance, and of pushing for progress to meet the world's sustainability challenges. We have always aimed to be a catalyst for change in the investment industry and to invest responsibly for our clients, and for our planet.

Federated Hermes

Federated Hermes takes a pragmatic view of the investment universe to identify stocks with the most attractive combinations of fundamental characteristics. We look for companies with sustainable business models and competitive advantages. In addition, it is important that companies behave responsibly, which leads us to companies that are well governed and treat their responsibilities to society and the environment seriously. At Federated Hermes we believe companies less exposed to ESG risks will outperform over the long term and that companies improving their ESG profiles can unlock significant shareholder value. Our investment philosophy can be encapsulated in four words:

- Pragmatism.
- Sustainability.
- Responsibility.

The Council's Appointed Banker and ESG

The Council's appointed banker is Lloyds Bank PLC and has two interest yielding deposit accounts with them. Lloyds Bank approach to ESG is as follows:

Lloyd's strategy focuses on building an inclusive society and supporting the transition to a low carbon economy as this is where we can make the biggest difference, whilst creating new avenues for our future growth. It is only by doing right by our customers, colleagues, and communities that we can achieve higher, more sustainable returns for investors, and generate value for all our stakeholders. ESG performance measures to continue to drive progress towards our environmental sustainability and our diversity and inclusion ambitions.

Management of Housing Revenue Account Debt

On 2nd April 2015 as part of the agreed Housing Subsidy (HRAS) Buyout process a Public Works Loan Board loan of £63.186 million was drawn down and subsequently paid over to WG on behalf of HM Treasury.

Removal of HRA Borrowing Cap

On 29th October 2018 the Welsh Government confirmed that the Housing Revenue Account (HRA) was abolished with immediate effect therefore the "Final Limit of Indebtedness" cap of £103.723m reported in previous strategies has been removed.

As a result, Local Authorities with an HRA are no longer constrained by government controls over borrowing for house building and are able to borrow against their expected rental income, in line with the Prudential Code

Project Bank Account

Welsh Government is committed to ensuring that sub-contractors involved in the delivery of public sector contracts in Wales are treated fairly. Previous experience suggests that payment practices have been historically poor throughout the supply chain and has led to cash flow pressures, which can have a greater effect on smaller companies further down the supply chain.

In order to improve this situation and to provide greater certainty of payment through the supply chain and to optimise payment periods to minimise financing charges, Welsh Government procurement policy requires Project Bank Account (PBA) arrangements to be used for publicly funded construction/infrastructure projects.

PBAs are ring fenced bank accounts with trust status which act solely as a receptacle for transferring funds from the client to the lead contractor and its sub-contractors. PBAs allow simultaneous payments to all levels of the supply chain.

As the PBA has trust status, monies can only be paid to the named beneficiaries of the PBA. These would be the lead contractor and other sub-contractors within the project's supply chain. The Vale of Glamorgan Council and the lead contractor would both be trustees of the bank account, however the account would be set up by the lead contractor
The Council will only place its funds with institutions which have a credit rating of A- or higher. The PBA would therefore need to be opened with an institution which meets this minimum requirement.

The first Project Bank Account was set up during 2019/20 with Lloyds Bank PLC to be used as a vehicle to make payments under the design and build contracts for 21st Century Schools now known as Sustainable Communities for Learning and an additional four accounts with Lloyds Bank PLC, Royal Bank of Scotland PLC & Santander UK PLC were added during in 2020/21 as the various Sustainable Communities for Learning schemes progress. There were no new additions during 2021/22 but another two are in the process od being set up in 2022/23.

MiFID II

Local authorities had been treated by regulated financial services firms as professional clients who can opt down to be treated as retail clients instead, however, from January 3rd, 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities are treated as retail clients who can opt up to be professional clients, provided that they meet certain criteria.

Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that, that person has the expertise, experience, and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is suitable for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council meets the conditions to opt up to professional status and has opted to do so with the Council's treasury advisers Link Asset Management and the brokers that it transacts with in order to maintain their current MiFID status.

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Appendix 3
Treasury Management Practices

TMP1 RISK MANAGEMENT

The Section 151 Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk and will report at least 4 times annually on the adequacy & suitability thereof. Any actual or likely difficulty in achieving the Council's objectives in this respect in accordance with the procedures set out in TMP6 Reporting Requirements and Management Information Arrangements will be reported to Full Council as a matter of urgency. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

Credit and Counterparty Risk Management

This Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards counterparties with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 Approved Instruments Methods and Techniques. These are listed in the schedule to this document. It also recognises the need to have and will therefore maintain, a formal counterparty policy in respect of those counterparties from which it may borrow, or with whom it may enter other financing arrangements.

Policy on the Use of Credit Risk Analysis Techniques

The Council uses credit ratings (long and short term) from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of default. This allows the Council to generate a list of highly creditworthy counterparties and enables diversification and thus avoidance of concentration risk. The lowest available credit rating will be used to determine credit quality. Credit ratings are obtained and monitored by the Council's Treasury Advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the minimum credit rating criteria then:

- No new investments will be made.
- Any existing investments that can be recalled at no cost will be recalled; and
- Full consideration will be given to the recall of any other existing investments.

The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an counterparty's credit rating with a view to downgrading it so that it is likely to fall below the Council's minimum criteria.

The categories and definitions are set out below:

Fitch's Credit Ratings and Definitions

Short Term Investments		
F1	Highest short-term credit quality	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good short-term credit quality	Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Credit Quality	Capacity for timely payment is adequate, however near term changes could result in a reduction to non investment grade.
B	Speculative	Minimal Capacity for timely payment, vulnerability to near term adverse changes.
Long Term Investments		
AAA	Highest credit quality	Lowest expectation of default risk. Exceptionally strong capacity for payment of financial commitments which is highly unlikely to be adversely affected by foreseeable events.
AA:	Very high credit quality.	Very low default risk with very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A:	High credit quality.	Expectations of low default risk. The capacity for payment of financial commitments is considered strong but may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality	Expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative	Elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative	Material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Moody's Credit Rating and Definitions

Short Term Investments	
P1	Prime 1 - Issuers have a superior ability to repay short term debt obligations
P2	Prime 2 – Issuers have a strong ability to repay short term debt obligations
P3	Prime 3 – Issuers have an acceptable ability to repay short term debt obligations
NP	Not Prime – No prime rating
Long Term Investments	
Aaa	Judged to be highest quality and subject to the lowest level of risk
Aa	Judged to be high quality and subject to very low credit risk
A	Judged to be upper medium grade and subject to low credit risk
Baa	Judged to be medium, grade and subject to moderate credit risk
Ba	Judged to be speculative and subject to high credit risk
B	Considered speculative of poor standing and are subject to very high credit risk
Caa	Judged to be speculative of poor standing and are subject to very high credit risk

Ca	Highly speculative and are likely in, or very near, default, with some prospect of recovery of principal or interest.
C	Lowest rated and are typically in default

Standard and Poor's Credit Ratings and Definitions

AAA	Investment Grade – Extremely strong capacity to meet financial commitments
AA	Investment Grade – Very strong capacity to meet financial commitments
A	Investment Grade – Strong capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BBB	Investment Grade – Adequate capacity to meet financial commitments but susceptible to adverse economic conditions and changes in circumstances
BB	Speculative Grade – Less vulnerable in the near term but faces major ongoing uncertainties
B	Speculative Grade – Vulnerable to adverse conditions but still has capacity to meet financial commitments
CCC	Speculative Grade – Currently vulnerable and dependent on favourable conditions to meet financial commitments
CC	Speculative Grade – Highly vulnerable default has not yet occurred but is expected to as a virtual certainty
C	Speculative Grade –Currently highly vulnerable to non payment
D	Payment breach of a financial commitment or in breach of an imputed promise

Other Information

Additional requirements under the Prudential Code require the Council to supplement credit rating information therefore credit ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its treasury advisers to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Categories of Investments

Investments fall into 1 of 2 categories, specified and non-specified investments.

Specified Investments

Specified investments are those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The WG Guidance defines an investment as a specified investment if all the following apply:

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (i.e., due or available to be repaid within 12 months) with the exception of Local Authority investments which may have a maturity period of up to 2 years.
- The making of the investment is not defined as capital expenditure by virtue of regulation 20 (1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 Statutory Instrument 3239 (W319) (as amended)
- The investment is made with a body or in an investment scheme of high credit quality or with one of the following public-sector bodies:
    - the United Kingdom Government
    - a local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland
    - a parish or community council.

The Council defines “high credit quality” organisations and securities as those having a long term credit rating of A- or higher that are domiciled in the UK or a Non UK country with a sovereign rating of AA- or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non Specified Investments

Any investment not meeting the definition of a specified investment is classed as Non-Specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation.
Non-specified investments will therefore be limited to long-term investments. The Council does not currently hold any non-specified investments but will consider opportunities in this area subject to the advice of the Council’s treasury advisers and the views of the Section 151 Officer.

Brexit

The UK’s sovereign rating is AA- long term. Following the UK’S departure from the EU in December 2020, the Council will apply a sovereign rating at least equal to that of the United Kingdom for any UK based counterparty. This approach will not limit the number of UK counterparties available to the Council. To ensure the Council’s credit risk is not increased outside the UK, the sovereign rating requirement for investments to Non UK countries also will be set at a minimum of AA-.

Investment Limits

	Short Term (under 12 months)	**Long Term (12 months+)**
UK Government incl. Treasury Bills, Gilts and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation.	£5M per organisation
UK Fire & Police Authorities	£5M per organisation.	£5M per organisation
UK and Foreign Financial Institutions (A-)	£5M per organisation	£5M per organisation
Money Market Funds	£10M per organisation	Not Required
UK Call Bank Accounts in UK Banks (F1/P-1/A-1)	£10M per organisation	Not required

The Council does not currently invest in any individual country outside the UK and it is intended that this approach will continue in 2023/24. The total investment in individual UK institutions that are part of the same UK owned group will not exceed the limit set out in the table above.

Liquidity Risk Management

This Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives. This Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital program or to finance future debt maturities.

Amounts of Approved Minimum Cash Balances and Short-Term Investments

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day (OR give details of any more specific targets). Borrowing or lending shall be arranged to achieve this aim. Details of the options available to the Council are as follows:

- A £2M overdraft at 2% over base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts.
- Insurance/guarantee facilities - There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences
- Special payments – There is a requirement for notice to be given to the treasury manager for all special payments above £1,000,000.

Certain contingencies are required to be included for instances where sums of money cannot be invested on the money market either because it is received too late in the working day or for any other reason. These funds will be deposited in the Council's current account. All deposits will be subject to the limit included in specified investments. Any such deposit must be withdrawn from the account and invested on the money market in the usual manner at the earliest opportunity.

Interest Rate Risk Management

This Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements. The Council It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

Policies Concerning the Use of Instruments for Interest Rate Management

- Forward dealing. The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
- Having considered the advice of the Council's treasury advisors, the Council will not be seeking to borrow sums in advance of need unless it is of significant economic benefit by the Section 151 Officer.
- The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link loans with particular items of expenditure.
- The Council will use callable deposits as part as of its Annual Investment Strategy (AIS). The credit criteria and maximum periods are set out in the Schedule of Specified and Non Specified Investments appended to the AIS.
- LOBOS (borrowing under lender's option/borrower's option) will only be utilized for existing borrowing as part of the annual borrowing strategy. All borrowing for periods more than 364 days must be approved by the Section 151 Officer

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Exchange Rate Risk Management

It is the Council's policy to only invest with organsations domiciled in the UK so the Council will limit its exposure to exchange rate risk in respect of its treasury investments. Where sums are received by the Council in foreign currency it is the Council's policy to exchange the sums into sterling to minimize exchange rate risk. Any diversion from this policy will need to be approved by the Section 151 Officer.

Refinancing Risk Management

This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time. The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period. Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous, and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk.
- to reduce the average interest rate.
- to amend the maturity profile
- to the balance of volatility of the debt portfolio.

Rescheduling will be reported to the Cabinet then Full council at the next meeting immediately following its action.

Projected Capital Investment Requirements

The Section 151 Officer will prepare a five year plan for capital expenditure for the Council. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges. In addition, the Section 151 Officer will draw up a capital strategy report which will give a longer term view.
The definition of capital expenditure and long term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

Policy Concerning Limits on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available and estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax and housing rent levels.

The Council will use the definitions provided in the Prudential Code for borrowing (77), capital expenditure (78), capital financing requirement (79), debt (80), financing costs (81), investments (82), net borrowing (83), net revenue stream (84), other long term liabilities (85).

PFI, Partnerships, ALMOs and Guarantees

The Council does not have any PFI, ALMO or financial guarantees in place.

On 1st January 2020, the Council set up a Local Authority Trading Company to deliver Catering services called the Big Fresh Catering Company. The Council owns 100% of the company shares. In accordance with WG Investment Guidance this is classified as a Non Treasury Investment.

Legal and Regulatory Risk Management

This Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect the Council, particularly with regard to duty of care and fees charged.

This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Council.

References to Relevant Statutes and Regulations

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. These are:

Welsh Authorities

- Local Government Finance Act 1988 section 114 – duty on the responsible officer to issue a report if the Council is likely to get into a financially unviable position.
- Requirement to set a balanced budget - Local Government Finance Act 1992 section 32 for billing authorities and section 43 for major precepting authorities.
- Local Government Act 2003 and explanatory notes
- W.S.I. 2003 No.3034 (W.282) (C.113) The Local Government Act 2003 (Commencement) (Wales) Order 2003
- W.S.I. 2003 No.3239 (W319) The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003
- S.I. 2004 No.533 Local Authorities (Capital Finance) (Consequential, Transitional and Savings Provisions) Order 2004
- W.S.I. 2004 No. 1010 (W107) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004
- The Welsh Assembly 'Guide on the Prudential Framework for Capital Finance for Local Authorities in Wales' June 2004
- W.S.I. 2006 No. 944 (W93) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2006W.S.I. 2007 No. 1051 (W108) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2007
- WSI 2008 No 588 (W59) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008
- W.S.I. 2009 No. 560 (W52) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2009
- S.I. 2009 no. 3093 The Local Government Pension Fund Scheme (Management and Investment of Funds) Regulations 2009
- W.S.I. 2010 No. 685 (W67) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2010
- Revised Guidance on Investments Welsh Government 1.4.2010
- Localism Act 2011
- W.S.I. 2014 No. 481 (W58) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2014
- W.S.I. 2016 No.102 (W50) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2016
- W.S.I. 2018 No. 325 (W. 61) The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018
- Statutory Guidance on Investments 2019

Guidance and Codes of Practice

- Allocation of financing costs to the HRA and requirement to make an HRA MRP *(housing authorities)*- Local Government and Housing Act 1989 section 87 and schedule 4, item 8 in parts 1 and 2
- Definition of HRA capital expenditure *Local* Government and Housing Act 1989 section 74 (1)
- DCLG: Statutory guidance on the flexible use of capital receipts (updated) March 2016
- Revised 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes
- CIPFA Prudential Code for Capital Finance in Local Authorities Guidance Notes for Practitioners 2018
- CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities 1996
- CIPFA Standard of Professional Practice on Treasury Management 2002
- CIPFA Standard of Professional Practice on Continuous professional Development 2005
- CIPFA Standard of Professional Practice on Ethics 2006
- The Good Governance Standard for Public Services 2004
- LAAP Bulletins
- IFRS - Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of recommended Practice
- PWLB circulars on Lending Policy
- The UK Money Markets Guide. (Formerly known as the Non Investment Products Code (NIPS) - Financial Conduct Authority's Code of Market Conduct
- The Council's Standing Orders relating to Contracts
- The Council's Financial Regulations
- The Council's Scheme of Delegated Functions

Procedures for Evidencing the Council's Powers/Authorities to Counterparties

The Council's powers to borrow and invest are contained in legislation.

Investing: Local Government Act 2003, section 12
Borrowing: Local Government Act 2003, section 1

In addition, it will make available on request the following:

- The scheme of delegation of treasury management activities which is contained in the Treasury Management Policy which states which officers carry out these duties
- The Council's authorised signatory's documentation

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Statement on the Council's Political Risks and Management of Same

The Section 151 Officer shall take appropriate action with the Council, the Chief Executive and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc.

Monitoring Officer

The monitoring officer is the Head of Legal Services the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

Chief Financial Officer

The Chief Financial Officer is the Head of Finance/Section 151 Officer. The duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

Fraud, Error and Corruption, and Contingency Management

This Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption, or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore:

- seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.

- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Officer Responsibilities Regarding Investment / Borrowing Transactions

All executive decisions on borrowing, investment or financing shall be delegated to the Section 151 and the Deputy Section 151 Officer (in his / her absence) or through the following posts, who shall all be required to act in accordance with CIPFA's "Code for Treasury Management in the Public Services".

W-FS-AA003	Operational Manager Accountancy
W-RM-AC003	Finance Support Manager
W-RM-AC015	Senior Accounting Technician
W-RM-AC006	Capital Accountant
W-RM-AC014	Corporate Accountant
W-RM-AC004	HRA Accountant

Procedure - Investments

The Senior Accounting Technician (post W-RM-AC015) is responsible for the negotiation and preparation of all loan documentation including CHAPS payments for all investments. Preparation of CHAPS / Faster payments documentation will also be required for large or urgent creditor payments. In their absence these duties will be carried out by the Finance Support Manager (post W-RM-AC003) or the Capital Accountant (post W-RM- AC006) or in their absence either the HRA Accountant (post W-RM- AC004), Corporate Accountant (post W-RM-AC014) or Operational Manager Accountancy (post no W-FS-AA003).

The Accounting Technician (post no W-RM-AC018) is responsible for the recording, checking for accuracy and audit of the loan document and CHAPS payment, however in their absence another member of the accountancy team will carry out the audit function as long of separation of duty is maintained.

An Authorised Signatory as listed on the Authority's LLOYDS bank mandate is responsible for signing the CHAPS payment.

The Authority's Control Section is responsible for electronically processing the CHAPS payment through the Lloyds banking system. The payment must be input by one individual and then approved by another.

Procedures - Borrowing

All borrowings on behalf of the Authority are undertaken by the Senior Accounting Technician (post W-RM-AC015) with prior approval of the Section 151 Officer. In their absence these duties these will be carried out by the Finance Support Manager (post W-RM-AC003) or the Capital Accountant (post W-RM-AC006) or the Operational Manager Accountancy (post W-FS- AA003).

Investment Documentation

- A numbered loan document will be drawn up for each investment.
- Investment transactions placed through brokers will be confirmed by a broker note
- A numbered CHAPS payment will be prepared for each investment, a copy of which will be retained with the loan documentation for confirmation of payment purposes. The copy sent for payment will be converted to PDF format.
- Written Standard Settlement Instructions (SSI'S) will be exchanged electronically for all new counterparties. A second confirmation of bank details will also be sourced.
- Written confirmation received either electronically or on paper will be checked against internal loan documentation.
- A register of all investments is maintained in an excel spreadsheet called Daily Cash Estimates in a tab named "Controls" which is in the "Treasury Management" folder. There are separate tabs for Treasury Bills & Money Market Fund Deposits.
  Investments with Lloyds are carried out with bank transfers to and from the Lloyds General Fund Account to either the Instant Access or Monthly Bonus Accounts. A template is completed and emailed to either the Operational Manager who will authorize the deposit or redemption and then forward it to the bank by email to be actioned.
  A more detailed version of the above procedure is included in the Treasury Management Procedure Notes**.**

Borrowing Documentation

- After consultation with the Section 151 officer an "Application to Borrow PWLB" form will need to be completed. The template can be downloaded from the PWLB website (pwlb@gov.uk)
- Completed templates must be emailed to pwlb@dmo.gov.uk. Normal business hours are between 9.30am and 4.15pm.
- Only correctly completed email applications received by the DMO between these hours will be accepted.
- The turnaround time for a PWLB loan is five working days after the loan application (T+5 settlement).
- Confirmation of loan is received by email.

Regularity and Security

- Investments are negotiated with institutions on the Approved List of Counterparties.
- All receipts and payments involving investment transactions will go directly to and from the bank accounts of approved counterparties, the settlement details of which are held on file.
- Brokers advise the Authority of the nominated personnel who may negotiate deals on the Authority's behalf.
- Counterparty limits are set for every institution that the Council invests with.
- There is a separation of duties in the section between dealers and the checking and authorization of all deals.
- The Authority's bank mandate lists the Authorised Signatories for treasury management transactions.
- CHAPS Payments can only be authorised by an Authorised Signatory, the list of signatories having previously been agreed with the current provider of the Authority's banking services.
- Adequate insurance cover for employees involved in treasury management has been affected.

Checks.

- The bank reconciliation is carried out monthly from the bank statement to the financial ledger
- The Senior Accounting Technician will reconcile all treasury transactions to the general ledger quarterly and again at year end to check that they have been accurately recorded. These are reviewed by the Council's Internal Audit.
- The external funds the Council invests in are accounted for with proper accounting practices and reviewed by the Council's Internal Audit.

Calculations

- The calculation of repayment of principal and interest notified by the lender or borrower are checked for accuracy against the amount calculated by the Treasury Management spreadsheets.
- Periodic interest payments of PWLB and for other long term loans are calculated manually with the use of excel spreadsheets.
- Average weighted capital loans fund interest rates and debt management expenses are estimated when producing the Strategy statement, revised for the Mid-Year Report and actuals produced at year end closing with actual data from the financial ledger. Information is recorded on spreadsheets.
- These interest and expense rates are then used to calculate the principal, interest and debt management expense charges to the General Fund and the Housing Revenue Account recharge.

Insurance Cover Details

Fidelity Insurance
The Council has 'Fidelity' Guarantee Insurance cover under the full crime policy underwritten by RMP Ltd. This covers the loss of cash by fraud or dishonesty of employees.
This cover is limited to £5m for any one event with an excess of £25,000 for any one event.

Professional Indemnity Insurance
Professional Indemnity insurance covers claims arising from a loss occurring because of advice given for a fee. The Council does not carry out a Treasury Management function for an outside body and therefore Professional Indemnity cover is not required.

Business Interruption
Treasury Management falls within the wider increased cost of working cover the Authority has, so in the event of a disaster the Authority may exercise its Business Continuity Plan. The Authority currently has cover for £3m worth of increased working costs.

Market Risk Management
This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations. The Authority does not use investment tools where is a potential loss of the principal sums it invests.

Emergency and Contingency Planning Arrangements
All computer files are on a server which is backed up daily and are accessible from remote sites. Post Covid 19 pandemic contingency arrangements have been put in place and all Treasury Officers are currently working from home and access the treasury function remotely.
Should there be any problems accessing the Councils databases e.g., personal internet connection problems, then all treasury officers can still work at Council offices throughout the Vale.

Environmental, Social & Governance (ESG) Considerations
Project Zero is the Vale of Glamorgan Council's response to the climate change emergency. Project Zero brings together the wide range of work and opportunities available to tackle the climate emergency, reduce the Council's carbon emissions to net zero by 2030 and encourage others to make positive changes. In July 2019, THE Council joined Welsh Government and other Local Authorities across the UK in declaring a Climate Emergency in response to the United Nations' Intergovernmental Panel on Climate Change report into the impact of global warming. Since then, the Council has continued to make changes across the organisation embarking on ambitious projects to reduce

the Council's carbon emissions and to send a clear message that we must all work together to adapt to and mitigate the effects of climate change.

Most of the Council's investments are placed with the UK Government or Local Authorities. As the majority have declared a climate and nature emergency, the Council are accepting that they are following ESG principles and therefore will continue to place investments with them. Should the Council become aware of any Local Authority that goes against these principles the Council will no longer consider the organisation for investment purposes. The remainder of the Council's investments are placed with the CCLA & Federated Hermes Money market funds both domiciled in the UK and are AAA rated by the main credit rating agencies as mentioned previously in the Investment Strategy. Credit rating agencies now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings Both recognise their responsibilities concerning ESG and their approach to and policies for ESG are summarised below.

CCLA

CCLA believe that investment markets and in turn, investment returns will only be as healthy as the environment and communities that support them. We therefore focus on some of the world's most pressing challenges to build a future that can continue to support sustainable returns for our clients, and outcomes for our planet. CCLA has a long track record of investing responsibly to deliver positive change in company practice and performance, and of pushing for progress to meet the world's sustainability challenges. We have always aimed to be a catalyst for change in the investment industry and to invest responsibly for our clients, and for our planet.

Federated Hermes

Federated Hermes takes a pragmatic view of the investment universe to identify stocks with the most attractive combinations of fundamental characteristics. We look for companies with sustainable business models and competitive advantages. In addition, it is important that companies behave responsibly, which leads us to companies that are well governed and treat their responsibilities to society and the environment seriously. At Federated Hermes we believe companies less exposed to ESG risks will outperform over the long term and that companies improving their ESG profiles can unlock significant shareholder value. Our investment philosophy can be encapsulated in four words:

- Pragmatism.
- Sustainability.
- Responsibility.

The Council’s Appointed Banker and ESG

The Council’s appointed banker is Lloyds Bank PLC and has two interest yielding deposit accounts with them. Lloyds Bank approach to ESG is as follows:

Lloyd’s strategy focuses on building an inclusive society and supporting the transition to a low carbon economy as this is where we can make the biggest difference, whilst creating new avenues for our future growth. It is only by doing right by our customers, colleagues, and communities that we can achieve higher, more sustainable returns for investors, and generate value for all our stakeholders. ESG performance measures to continue to drive progress towards our environmental sustainability and our diversity and inclusion ambitions.

TMP 2 PERFORMANCE MEASUREMENT

Evaluation and Review of Treasury Management Decisions

The Council has several approaches to evaluating treasury management decisions: -

- Reviews carried out by the treasury management team with the Section 151 Officer as and when required
- Reviews with our treasury management consultants
- Annual review after the end of the year as reported to full council
- Quarterly reports to Scrutiny Committee, Cabinet & Full council
- Comparative reviews with monthly benchmarking
- Strategic, Scrutiny and Efficiency value for money reviews

Periodic Reviews During the Financial Year

The Operational & Finance Managers and Treasury Management team will carry out regular reviews of the Council's Treasury management position and will arrange to meet with the Section 151 Officer to discuss the Treasury Management position as and when required.

Reviews with the Councils Treasury Management Consultants

The treasury management team holds reviews with our consultants at least every 6 months to review the performance of the investment and debt portfolios.

Review Reports on Treasury Management

An Annual Treasury Report is submitted to the Council after the close of the financial year which reviews the performance of the investment and borrowing portfolios. This report contains the following: -

- total debt and investments at the beginning and close of the financial year and average interest rates
- borrowing strategy for the year compared to actual strategy
- investment strategy for the year compared to actual strategy
- explanations for variance between original strategies and actual performance
- debt rescheduling done in the year
- actual borrowing and investment rates available through the year
- compliance with Prudential and Treasury Indicators
- other

In addition, the following are also prepared:

- Mid Year Report
- Quarterly Reports
- Monthly Monitoring Reports

Comparative Reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential and Treasury Indicators are locally set). Data used will be sourced from: -

- Investment benchmarking club provided by the Council's Treasury Management Consultants Link Asset Management
- CIPFA Treasury Management statistics published each year for the last complete financial year
- Other

.

Policy Concerning Methods for Testing Value for Money in Treasury Management

Frequency and Processes for Tendering

Tenders are normally awarded on a 3 yearly basis with the option to extend for 2 years. The process for advertising and awarding contracts will be in line with the Council's Contract Standing Orders.

Banking Services

The Council's banking arrangements are to be subject to competitive tender. The Council is in contract with Lloyds Bank PLC which is a 7 year contract with the option to extend for a further 3 years. The Contract was procured via the Technology Procurement Association (TPA) framework LOT 1 Banking Services which has been fully tendered.

Money-Broking Services

The Council will use money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them. The Council's policy is to allocate business mindful of the interest rates available and the availability of borrowers and lenders.
An approved list of brokers is set out below.

- ICAP Europe Limited
- Tradition (UK) Limited
- BGS Sterling International Brokers Ltd
- Martin Brokers
- Imperial Treasury Services
- King and Shaxson

Consultancy Services

This Council's policy is to appoint full-time professional Treasury Management consultants and separate leasing advisory consultants.

TMP 3 DECISION-MAKING AND ANALYSIS

Borrowing, Lending, and New Instruments/Techniques

In respect of every decision the Council will:

- Be clear about the nature and the extent of the risks to which the Authority may be exposed.
- Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests.
- Ensure that counterparties are judged satisfactory in the context of the Authority's creditworthiness policies and that limits have not been exceeded.

In Respect of Borrowing Decisions, the Council will:

- Consider the ongoing revenue liabilities created and the implications for the Authorities future plans and budgets.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- Consider the merits and demerits of alternative forms of funding including funding from revenue, leasing and private partnerships.
- Consider the most appropriate periods to fund and repayment profiles to use.

In Respect of Investment Decisions, the Council will:

- Consider the optimum period in the light of cash flow availability and prevailing market conditions.
- Consider alternative investment products and techniques available, especially the implications of using any which may expose the organisation to changes in the value of its capital.

Records to be kept

The Treasury section records all treasury management transactions on spreadsheets. These are in turn stored in a folder titled Treasury Management which is held on the server and backed up daily. The following records will be retained.

- Daily Cash Estimates Spreadsheet
- Daily cash balance forecasts (included in above)
- Daily cash management sheet
- Dealing slips for all money market transactions
- Brokers' confirmations for investment
- Brokers confirmations for temporary borrowing transactions
- Confirmations from institutions where deals are done directly
- Calculations of Interest
- Annuity Calculations

- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Tender documents
- Benchmarking statistics

Processes to be Pursued

- Daily reconciliation of bank balance to include investments, borrowing and payments.
- Cash flow analysis and forecasting.
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Loans Pool
- Monitoring
- Performance information.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

Approved Activities of the Treasury Management Operation

- Borrowing.
- Investing.
- Debt repayment and rescheduling.
- Consideration, approval and use of new financial instruments and treasury management techniques.
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities.
- Managing cash flow.
- Banking activities.
- The use of external fund managers (other than Pension Fund)
- Leasing.
- The use of treasury management consultants
- Provision of training for treasury management officers and members

Approved Instruments for Investments

- Debt Management Account Deposit Facility (DMADF) of the Bank of England
- UK Treasury Bills which are guaranteed by the UK Government
- UK Local Authorities (including Police and Fire Authorities).
- Money Market Funds held with CCLA & Federated Hermes
- Call Accounts held with Lloyds Bank PLC
- Corporate Notice Accounts held with Santander Bank PLC.

Implementation of MIFID II requirements

Since 3 January 2018, UK public sector bodies have been defaulted to "retail" status under the requirements of MiFID II. However, for each counterparty it is looking to transact with, (e.g., financial institution, fund management operator, broker), there remains the option to opt up to "professional" status, subject to meeting certain requirements specified by MIFID II and that it has the appropriate level of knowledge and experience and decision-making processes in place in order to use regulated investment products.

MIFID II does not cover term deposits so local authorities should not be required to opt up to professional status. However, some non-UK banks do not have the necessary regulatory permissions to deal with retail clients, so opting up to professional status would be required.

For investing in negotiable investment instruments, (e.g. certificates of deposit, gilts, corporate bonds), money market funds and other types of investment funds, which are covered by MIFID II, a schedule is maintained of all counterparties that the treasury management team are authorised to place investments with. This specifies for each investment instrument and for each counterparty, whether the authority has been opted up to professional status.

(N.B. some money markets funds will deal with both retail and professional clients.)

The Council has opted up to Professional Status.

A file is maintained for all permissions applied for and received for opt ups to professional status and confirmation where an opt up is not required.

SCHEDULE FOR OPT UPS TO PROFESSIONAL STATUS

Brokers

- ICAP Europe Limited
- Tradition (UK) Limited
- BGC International Brokers Ltd
- Martin Brokers
- Imperial Treasury Services

Money Market Funds

- None yet received

SCHEDULE FOR EXEMPTIONS FROM OPTING UP

Brokers

- King and Shaxson

Approved Techniques

- Forward dealing
- Fixed Terms Deposits
- LOBOs – lenders option, borrower's option borrowing instrument
- Use of structured products such as callable deposits and money market funds

Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003), and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	Fixed	Variable
PWLB	*	*
Municipal bond agency *	*	*
Market (long-term)	*	*
Market (temporary)	*	*

Market (LOBOs)	*	*
Local temporary	*	*
Local Bonds	*	*
Local authority bills	*	*
Overdraft	*	*
Internal (capital receipts & revenue balances)	*	*
Leasing (not operating leases)	*	*
Deferred Purchase	*	*
WG Concessionary Loan	*	*

Other Methods of Financing

- Government Capital Grants
- Lottery monies
- Operating leases

Borrowing will only be done in GBP Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

Borrowing Limits

Set out in the Treasury Management Strategy Statement.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPOSIBILITIES AND DEALING ARRANGEMENTS

Allocation of responsibilities

Full council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual treasury management and investment strategy.
- Approval of capital strategy
- Approval of amendments to the treasury management policy statement
- Approval of amendments to the treasury and investment strategy
- Receiving and reviewing mid-year monitoring reports budget consideration and approval (as part of Revenue Proposals)

Head of Finance/Section 151 Officer

- Approval of amendments to the treasury management practices
- Approval of the division of responsibilities
- Receiving and reviewing regular monitoring reports and acting on recommendations
- Approving the selection of external service providers and agreeing terms of appointment.
- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

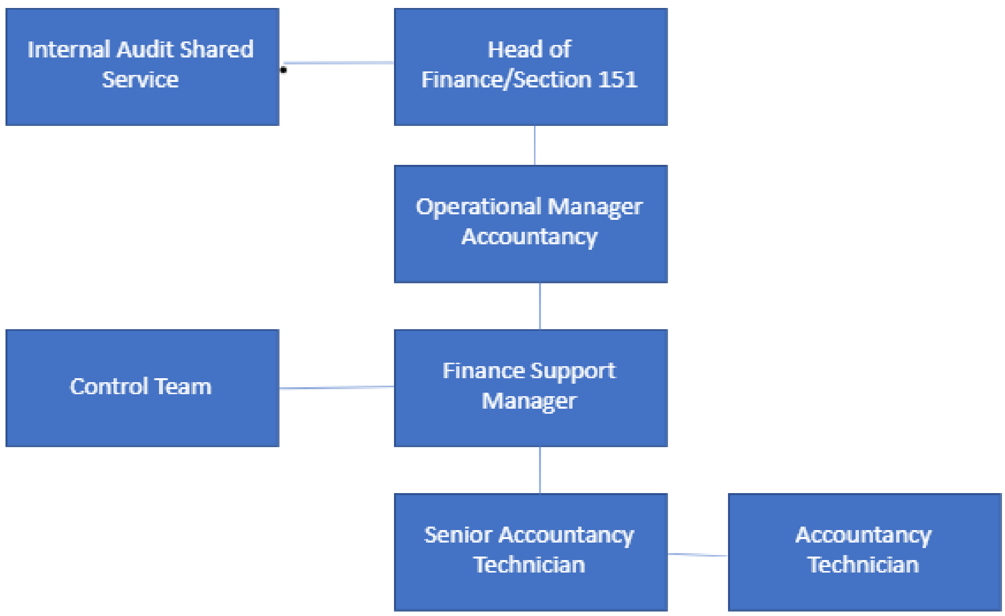
Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers:

Section 151 Officer	• Approval of Treasury Management Policy Statement, Investment Strategies etc before submission to Cabinet • Approval for borrowing transactions • Approval of Investment Counterparty and investment strategies
Senior Accounting Technician	• Negotiation of treasury transactions (Borrowing & Investments) • Production of Loan / Investment documentation and collation of various paperwork • Recording Loan / Investment Transactions

	• Receipt and checking of broker's confirmation against recorded transaction details • Receipt and checking of counterparty's confirmation against recorded transaction details • Produce CHAPS/ Faster payments documents • Ledger Reconciliation
Accounting Technician	• Audit loan documentation including calculation of interest. • Audit creditor /faster payment supporting paperwork including confirmation of bank details • Audit CHAPS/Faster payment documents • Recording Treasury Management payment transactions on the system
Internal Audit Section	• Reviewing compliance with approved policy and treasury management practices. • Reviewing division of duties and operational practice. • Assessing value for money from treasury activities. • Undertaking probity audit of treasury function.
Authorised signatory	• Authorise & sign CHAPS / Faster payment.
Control Section	• Electronic Payment of CHAPS/Faster Payment transaction. One officer to input another to approve. • Processing of accounting entry (Income & Expenditure).
Accounts Payable	• Entry of CHAPS/Faster on Oracle Payables system. • Processing of accounting entry.

Treasury Management Organisation Chart



Statement of the Treasury Management Duties of Each Treasury Post

The Responsible Officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Head of Finance/Section 151 Officer.

- 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

The Head of Finance/Section 151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

The Head of Finance/Section 151 Officer may delegate his power to borrow and invest to members of his staff. The Senior Accounting Technician must conduct all dealing transactions, or these duties can be undertaken by staff authorised by the responsible officer to act as temporary cover for leave/sickness.

The Head of Finance/Section 151 Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering any capital financing, lending or investment transaction, it is the responsibility of the Head of Finance/Section 151 Officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

The Treasury Management Team

The responsibilities of the Senior Accounting Technician will be:

- Execution of transactions
- Adherence to agreed policies and practices on a day-to-day basis
- Maintaining relationships with counterparties and external service providers
- Monitoring performance on a day-to-day basis
- Submitting management information reports to the responsible officer
- Identifying and recommending opportunities for improved practices

The treasury management team includes the following officers:

Post Ref	Post Title	Qualification	No. of Years Treasury Experience
W-FS-AA003	Operational Manager Accountancy	CIPFA	8

W-RM-AC003	Finance Support Manager	CIPFA	6
W-RM-AC015	Senior Accounting Technician	AAT	21
W-RM-AC006	Capital Accountant	ACCA	1
W-RM-AC014	Corporate Accountant	ICAEW	6
W-RM-AC004	HRA Accountant	CIPFA	1

The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

- Ensuring that the system is specified and implemented
- Ensuring that the responsible officer reports regularly to the full Council on treasury policy, activity, and performance.

The Monitoring Officer – the Head of Legal Services

The responsibilities of this post will be: -

- Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the responsible officer when advice is sought.

Internal Audit

The responsibilities of Internal Audit will be: -

- Reviewing compliance with approved policy and treasury management practices.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

Absence Cover Arrangements

All executive decisions on borrowing, investment or financing shall be delegated to the Section 151 or the Deputy Section 151 Officer (in their absence)

When the Senior Accounting Technician (post no W-RM-AC015) is absent cover can be provided by the following posts.:

- Finance Support Manager
- Capital Accountant
- HRA Accountant
- Corporate Accountant
- Operational Manager Accountancy

Dealing Limits

The posts listed above are authorised to negotiate loans and investments on behalf of the Authority within the limits as detailed in the Council's Treasury Management Strategy which has been approved by Council.

List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team as set out below and a record of all transactions recorded against them.

- ICAP Europe Limited
- Tradition (UK) Limited
- BGC International Brokers Ltd
- Martin Brokers
- Imperial Treasury Services
- King and Shaxson

Policy on Brokers' Services

It is this Council's policy is to allocate business mindful of the interest rates available and the availability of borrowers and lenders.

Policy on Taping of Conversations

It is not this Council's policy to tape brokers conversations. However, all telephone conversations between the Council and brokers and money market funds are recorded by the organisations involved.

Direct Dealing Practices

The Council will consider dealing directly with counterparties if it is appropriate and the Council believes that better terms will be available. At present, most deals are arranged through brokers. There are however certain types of accounts and facilities where direct dealing is required, these are as follows:

- Debt Management Deposit Facility (DMO)
- Call Accounts:
- Money Market Funds.

Settlement Transmission Procedures

A formal letter signed by an agreed cheque signatory setting out each transaction must be sent to the local authority's bankers where preliminary instructions have been given by telephone. For electronic payments a transfer will be made through the Lloyds Link system to be completed by 4.30 pm on the same day except for the DMO who require payment by 3pm and King & Shaxson (Treasury Bills) who require settlement by 11.30am the next working day after the transaction is dealt.

Documentation Requirements

For each deal undertaken a record should be prepared giving details of the following:

- Broker Company
- Dealer
- Borrower
- Date Dealt
- Payment Date
- Interest rate
- Maturity date
- Settlement Instructions
- Calculation of interest receivable
- Repayment of Principal/Interest Schedule if the Council is borrowing funds

Arrangements Concerning the Management of Third-Party Funds

The Council holds cash in respect of the Welsh Church Acts trust funds. The cash in respect of these funds is held in the Council's bank account and is classed as a temporary loan. Interest is calculated on the temporary loan amount and is paid over annually.

TM6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

Annual Programme of Reporting

Before the start of the Financial year: -

- Review of the Council's approved clauses, **Treasury Management Policy Statement and Practices**

- **Treasury Management and Investment Strategy Report** on proposed treasury management activities for the year comprising of the Treasury management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

    - **Capital Strategy** to cover the following: -
        - Give a longer-term view of the capital programme and treasury management implications thereof beyond the three-year time horizon for detailed planning.
        - An overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
        - The authorities risk appetite and specific policies and arrangements for non-treasury investments
        - Schedule of non-treasury investments

During the Financial year:

- **Quarterly Reports**
    - Reports comprising of updated Treasury and Prudential Indicators
- **Mid-year Report**
    - Progress report to update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

End of Financial Year

- **Annual Treasury Report**
    - 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.

Annual Treasury Management Strategy Statement

The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Cabinet and then to the full Council for approval before the commencement of each financial year.

The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter -term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.

The Treasury Management Strategy Statement is concerned with the following elements:

- Prudential and Treasury Indicators
- Current Treasury portfolio position
- Borrowing requirement
- Prospects for interest rates
- Borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- Investment strategy
- Creditworthiness policy
- Policy on the use of external service providers
- Any extraordinary treasury issues
- Minimum Revenue Provision Strategy
- Treasury Management Officer & Member Training

The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

The Annual Investment Strategy Statement

At the same time as the Council receives the Treasury Management Strategy Statement it will also receive a report on the Annual Investment Strategy which will set out the following: -

- The Council's risk appetite in respect of security, liquidity and optimum performance.
- The definition of high credit quality to determine what are specified investments as distinct from non specified investments.
- Which specified and non specified instruments the Council will utilise.
- Whether they will be used by the in-house team, external managers, or both.
- The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list

- Which credit rating agencies the Council will use
- How the Council will deal with changes in ratings, rating watches and rating outlooks
- Limits for individual counterparties and group limits
- Country limits
- Levels of cash balances
- Interest rate outlook
- Policy on the use of external service providers

Annual Minimum Revenue Provision Statement

This statement will set out how the Council will make revenue provision for repayment of its borrowing using the asset life option for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

Policy on Prudential and Treasury Indicators

The Council approves before the beginning of each financial year several treasury limits which are set through Prudential and Treasury Indicators.

The responsible officer is responsible for incorporating these limits into the Annual Treasury Management Strategy Statement, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council.

Quarterly reports

The Council will take these reports to the Corporate Performance Scrutiny Committee and should specifically comprise of updated Treasury & Prudential Indicators.

Mid Year review

The Council will review its treasury management activities and strategy after the first 6 months of the financial year have passed. This review will consider the following:

- Activities undertaken
- Variations (if any) from agreed policies/practices
- Interim performance report
- Monitoring of the prudential and treasury management indicators

Annual Review Report on Treasury Management Activity

An annual report will be presented to the Cabinet and then to the full Council at the earliest practicable meeting after the end of the financial year, but at the very latest case by the end of September. This report will include the following:

- Transactions executed and their revenue (current) effects
- Report on risk implications of decisions taken and transactions executed

- Compliance report on agreed policies and practices, and on statutory/regulatory requirements
- Performance report
- Report on compliance with CIPFA Code recommendations
- Monitoring of treasury management indicators

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices.
The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

List of Information Requirements of External Auditors

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Certificates for new long term loans taken out in the year
- Reconciliation of loan interest paid and received
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Principal and interest charges reports
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement and Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision
- Calculation of Cash & Cash Equivalents
- Fair Value Calculations
- Analysis of the split between long and short term debt

TMP 8 CASH AND CASH FLOW MANAGEMENT

Arrangements for Preparing Cash Flow Statements

Cash flow projections are prepared annually, monthly and daily. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known. The cash flow statement forms part of the Daily Cash Estimates file.

Bank Statements Procedures

The Council receives daily bank statements and a daily download of data from its bankers. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken monthly by the Control Team Leader.

Payment Scheduling / Agreed Terms of Trade with Creditors

The Council policy is to pay creditors within 28 days of the invoice raised date and this effectively schedules the payments. All invoices are paid by the due date.

Arrangements for Monitoring Debtors / Creditors Levels

The Senior Accounting Technician responsible for Treasury Management has access to all bacs runs for debtors & creditors from the files located in Daily Tasks folder 2022, Cash Control Lloyds Reports, Bacs Files Processed. Data is accessed daily and estimates replaced with actuals in the Daily Cash Estimates file so there is always a period of at least 2 days during which any large variations between actuals and estimates can be accommodated for.

Procedures for Banking of Funds

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the cashiers to deposit in the Council's banking accounts. Cashiers will reconcile money collected with till receipts and complete a paying in slip to accompany the deposit, a copy of which is forwarded to the Control Section so it can be reconciled to the entry on the bank statement when the funds are received. Securior is contracted by the Authority to collect all deposits at the end of the day and transport the funds to the processing centre in Bristol.

Practices Concerning Prepayments to Obtain Benefits

The Council has no formal arrangement in place. Where such opportunities arise, the prepayment would be sought and authorised by the Head of Finance/Section 151 Officer.

TMP 9 MONEY LAUNDERING

Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland.
- Being concerned in an arrangement in which a person knows, suspects or facilitates the acquisition, retention, use or control of criminal property.
- Acquiring, utilising or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- Failure to disclose money-laundering offences.
- Tipping off a suspect, either directly or indirectly.
- Doing something that might prejudice an investigation e.g. falsifying a document.

The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism, or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following:

- Identify and assess the risks of money laundering and terrorist financing.
- Have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments.
- Appoint a nominated officer.
- Implement internal reporting procedures.
- Train relevant staff in the subject.
- Obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken.
- Report their suspicions.

Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the Proceeds of Crime Act (POCA) but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing and anti-money laundering, regimes. Accordingly, this Council will do the following:

- Evaluate the prospect of laundered monies being handled by them.
- Determine the appropriate safeguards to be put in place.
- Require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness.
- Make all its staff aware of their responsibilities under POCA.
- Appoint a member of staff to whom they can report any suspicions. This person is the Head of Finance / Section 151 Officer.
- To ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
- The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Head of Finance / Section 151 Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

Procedures for Establishing Identity / Authenticity Of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence, and this will be effected by following the procedures below:

It is the Authority's current policy to ONLY borrow funds from.

- Public Works Loans Board.
- Welsh Government
- Local Authorities.
- Authorised financial institutions registered under the Financial Services and Markets Act 2000.

Methodologies for Identifying Deposit Takers

The Council will only lend money to or invest with those counterparties that are on its approved lending list. All transactions will be CHAPS or Faster Payment transactions or by Direct Debit for the repayment of loan principals & interest These will be:

- Local Authorities
- The Debt Management Office,
- Welsh Government
- UK Banks,
- Bank of England (Treasury Bills)
- Authorised deposit takers under the Financial Services and Markets Act 2000 (The FCA register can be accessed through their website on www.fca.gov.uk).

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TMP 10 TRAINING AND QUALIFICATIONS

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity and the requirement of the revised 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes.
There are two categories of relevant individuals:

- Treasury Management Officers employed by the Council
- Members charged with governance of the Treasury Management Function

It is a requirement of the CIPFA Code of Practice that the Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The Head of Finance / Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The CIPFA Treasury Management Code requires the Head of Finance/Section 151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The Code states that all local authorities are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The Council's treasury advisor Link Asset Management provides treasury management training for Members, the last training courses taking place on March 1st & June 26th, 2022. Further training has been arranged on 27th February 2023. In further support of the revised training requirements, Members will be required to complete a self-assessment form after the training session on the 27th of February 2023 to assess their knowledge and identify any shortfalls where further training may be required.

Details of Approved Training Courses

Treasury management Officers attend courses provided by the Council's Treasury Management Consultants, CIPFA, money brokers etc. Members attend tailor made courses presented by the Council's Treasury Management Consultants.

Records of Training Received by Treasury Management Officers

The Treasury Team maintain records on all officers and the training they receive. Details of courses attended are recorded.

Approved Qualifications for Treasury Staff

The Treasury Management officers should be at least Association of Accounting Technicians (AAT) Qualified or equivalent and should have at least 5 year's experience in a financial environment.

Record of Secondment of Senior Management

Records will be kept of all senior management who are seconded into the treasury management section to gain firsthand experience of treasury management operations or for covering absences.

Statement of Professional Practice (SOPP)

- Where the Section 151 Officer is a member of CIPFA, there is a professional need for the Section 151 Officer to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.
- Other officers involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Member Training Records

Records will be kept of all training in treasury management provided to members.

Members Charged with Governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role. Members will receive annual training from the Council's Treasury Management Consultants Link Asset Management as part of the contract with the Council.

TMP11 EXTERNAL SERVICE PROVIDERS

Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

This Council will employ the services of external service providers to assist it in the field of Treasury Management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of the Council, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the internal treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and thus avoid undue reliance on such advice.

Treasury management staff and senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance. These include:

- CIPFA Codes of Practice.
- Welsh Government Guidance.
- Financial articles in quality financial press.
- Market Data.
- Information on UK Government support to banks.
- Credit Ratings of that Government support.
- Financial journals.

Banking Services

- Service supplier Lloyds TSB Bank PLC.
- Branch address: 141, Holton Road Barry
- Bank permitted to undertake banking activities by the FCA
- The Council originally entered a 7-year contract
- Option to extend for a further 3 years
- Service cost is variable depending on volumes and tariffs
- Lloyds Commercial Banking online transactions charged monthly
- Bacs & Reconciliation Data & Commission charged quarterly
- Bacs originators charged annually.

The agreement may be terminated with immediate effect by either party giving notice in writing if the other

- Commits a material breach of the Agreement which, in the case of a breach capable of remedy, is not remedied within 90 days of receipt from the party alleging the breach of a notice specifying the breach and requiring its remedy: or

- The other party is unable to pay its debts as they fall due or becomes or threatens to become or is at risk of becoming subject to any form of insolvency, administration, or ceases or threatens to cease carrying on business: or
  - The Bank may terminate the Agreement immediately or within such a period as it may specify, if continued association with the Authority would, in the Banks sole opinion contravene the Ethical Policy or the Ecology Mission Statement of the Bank as may be notified to the Authority upon request from time to time or
- The Authority may terminate the Agreement immediately, or within such period as it may specify in the circumstances set out in Clause 12 (Gifts or Rewards to Members or Offices).

Money-Broking Services

The Authority uses money brokers for the placing of most of its investments and for limited negotiation of short / long term borrowing. The Authority has the option to "direct deal" if wishes to do so.

The performance of brokers is reviewed by the Senior Accountancy Technician every quarter to see if any should be taken off the approved list and replaced by another choice and will make appropriate recommendations to change the approved brokers list to the Section 151 Officer.

Approved Brokers

- ICAP Europe Limited
- Tradition (UK) Limited
- Sterling International Brokers Ltd
- Martin Brokers
- Imperial Treasury Services
- King and Shaxson

External Fund Managers

The Authority has not currently engaged the services of external fund managers but retains the option to do so if required.

Credit Rating Agency

The Authority receives a credit rating advice through its Treasury Management Consultants, the cost of which is included in the consultant's annual fee.

Regulatory Status of Services Provided

The Authority subscribes to CIPFA and has access to the Professional Codes of Practice.

Procedures and Frequency for Tendering Services

Tenders are normally awarded on a 3 year basis with the option to extend for a further 2 years. The process for advertising and awarding contracts will be in line with the Authority's Contract Standing Orders.

TMP 12 CORPORATE GOVERNANCE

List of Documents to be Made Available for Public Inspection

The Council is committed to the principle of openness and transparency in its treasury management function and in all its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

- Treasury Management Policy Statement
- Treasury Management Strategy Statement
- Annual Investment Strategy
- Minimum Revenue provision policy statement
- Annual Treasury Review Report
- Treasury Management monitoring reports (available quarterly)
- Annual accounts and financial instruments disclosure notes
- Annual budget
- 5 Year Capital Programme
- Capital Strategy
- Minutes of Council / Cabinet / Committee meetings