VALE of GLAMORGAN
BRO MORGANNWG

Agenda Item: 7

Meeting of:	**Audit Committee**
Date of Meeting:	**Monday, 01 March 2021**
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	**Treasury Management and Investment Strategy 2021/22 and Update for 2020/21**
Purpose of Report:	To provide an interim report on the Council's Treasury Management operations for the period 1st April to 31st December 2020 and to submit for consideration the proposed 2021/22 Treasury Management and Investment Strategy.
Report Owner:	Report of the S151 Officer
Responsible Officer:	**Carys Lord 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 2020. 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 2021/22 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. 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. 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.
- Capital expenditure when financed by long term debt incurs two elements of cost, interest on 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 calculation is detailed in the report.

- The Treasury Management Policy for 2021/22 is attached at Appendix 2.

Recommendations

1. That the Treasury Management interim report for the period 1st April to 31st December 2020 be endorsed.
2. That the policy for making Minimum Revenue Provision in 2021/22 be endorsed.
3. That the proposed 2021/22 Treasury Management and Investment Strategy be endorsed including the following specific resolutions (detailed in Appendix 1):

- The Authorised Limit for External Debt be set at £216.333m for 2020/21, £251.843m for 2021/22, £275.794m for 2022/23 and £288.550m for 2023/24.
- The Operational Boundary for External Debt be set at £204.430m for 2020/21, £239.140m for 2021/22, £268.091m for 2022/23 and £280.847m for 2023/24.
- 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 is set on its fixed interest rate exposures of £151.949 for 2020/21, for 2021/22 of £194.282m, for 2022/23 of £225.120m and for 2023/24 of £238.166m of its net outstanding principal sum on its borrowings / investments.
- An upper limit is set on its variable interest rate exposures of £0 for 2020/21, 2021/22, 2022/23 and 2023/24 of its net outstanding principal sum on its investments.
- An upper limit of £0m for 2020/21, £10m for 2021/22, £10m in 2022/23 and £10m in 2023/24 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 2021/22 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 endorsed.
- The Treasury Management Policy set out in Appendix 2 be endorsed.

Reasons for Recommendations

1. To present the Treasury Management Interim Report.
2. To agree the basis of the Minimum Revenue Provision calculation for 2021/22.

3. The Treasury Management and Annual Investment Strategy is prepared as required by the Local Government Act 2003.

1. Background

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

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, 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 on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4 Revised reporting was introduced for the 2019/20 reporting cycle due to revisions of the Welsh Government Investment Guidance, the Welsh Government Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a Capital Strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity which may be undertaken by the Council. This Council has not engaged in any commercial investments and has no non-treasury investments.

1.5 The Capital Strategy is being reported to members as a separate report on this agenda.

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

1.7 In order 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.

1.8 The key objectives of the fully revised Prudential Code are to ensure that the capital investment plans of local authorities:

- Are affordable;
- That all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- The treasury management decisions are taken in accordance with professional good practice.

2. Key Issues for Consideration

Treasury Management Reporting

2.1 In March 2018 the Council adopted the CIPFA Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which together with the WG revised guide on Local Government Investments (April 2010), requires the Council 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; and
- Investment Strategy.

Mid-Year Treasury Management Report

2.3 A progress report which update 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 The proposed Treasury Management and Investment Strategy for 2021/22, 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 a number of statutory Prudential Indicators that may be used to support and record local decision-making.

2.6 IFRS16 is an accounting standard that will bring the assets and liabilities associated with the Council's lease assets on balance sheet. The implementation of IFRS 16 has now been delayed to April 2022 so the implications of the standard are not included in these Prudential Indicators.

Proposed Strategy 2021/22

Balance Sheet Projections

2.7 To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2021/22 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2021/22 to 2025/26. The projections also take into account the advice of our Treasury Management Advisers that interest rates are expected to remain low as are investment returns during the period and therefore seeks to maximise the use of reserves and spare cash balances to finance capital expenditure.

2.8 At 31st March 2020 Capital Financing Requirement was £199.078m of which 23% or £45.168m was internally borrowed. The Council had external borrowing of £153.910m.

2.9 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.

2.10 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 and repays existing debt and also as the balance available to fund current supported borrowing reduces.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Capital Financing Requirement	231,021	257,477	268,440	277,286	281,268
Less External Borrowing	198,382	229,220	242,265	252,176	268,968
Internal Borrowing	**32,639**	**28,257**	**26,175**	**25,110**	**12,300**
Internal borrowing as a % of Capital Financing Requirement	**14%**	**11%**	**10%**	**9%**	**4%**
Reserve/Capital Grant Balances and Provisions	58,897	56,038	55,392	53,504	51,504
Capital Receipts	3,373	2,334	2,334	2,334	2,334
Total Cash Backed Reserves and Provisions	**62,270**	**58,372**	**57,726**	**55,838**	**53,838**
Less External Investments Target	30,000	30,000	30,000	30,000	30,000
Balance Available for Internal Borrowing	**32,270**	**28,372**	**27,726**	**25,838**	**23,838**

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Working Capital Surplus	13,039	13,039	13,039	13,039	13,039
Projected External Investments	29,631	30,115	31,551	30,728	41,538
Total Projected Investments Balance	**42,670**	**43,154**	**44,590**	**43,767**	**54,577**

Borrowing Strategy

2.11 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. This strategy is prudent as investment returns are low and counterparty risk is an issue that needs to be considered.

The Council's Final Capital Proposals 2021/22 to 2025/26 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below which totals £33M for the Council Fund and £82M for HRA.

Scheme	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2024/25 £000**	**Total £000**
General Fund						
General Capital Funding Supported Borrowing	3,429	3,422	3,422	3,422	3,422	17,117
Unsupported Borrowing						

21st Century Schools Band B	3,581	4,424	0	0	0	8,005
City Deal	2,240	4,480	0	0	0	6,720
Vehicles	0	1,236	364	0	0	1,600
Total General Fund	**9,250**	**13,562**	**3,786**	**3,422**	**3,422**	**33,442**
Housing Revenue Account						
Housing Revenue Account	26,298	19,233	14,447	13,092	8,562	81,632
Total New Borrowing	**35,548**	**32,795**	**18,233**	**16,514**	**11,984**	**115,074**

2.12 The Council is also projecting to use £9.552m of Capital receipts between 2021/22 and 2025/26. In addition, as part of the Final Revenue Proposals 2021/22 the Council sets out a reduction in its reserves of 35% or £22.590m. This reduces the Council's ability to finance borrowing through internal borrowing.

2.13 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 is £37.823m between 2021/22 and 2025/26.

2.14 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 £150m 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 2.7 to 2.9 of this report.

Scheme	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**Total £000**
New Borrowing	36,000	33,000	18,000	16,000	12,000	115,000
Replacement Borrowing	13,000	4,000	3,000	4,000	11,000	35,000
Total External Borrowing	49,000	37,000	21,000	20,000	23,000	150,000

2.15 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

2.16 As set out in the Council's Balance Sheet projections in paragraphs 2.7 to 2.10, 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.

2.17 In 2021/22 the Council will place investments with the Debt Management Account Deposit Facility (DMADF) of the Bank of England and UK Treasury Bills which are guaranteed by the UK Government, with UK Local Authorities (including Police and Fire Authorities), Money Market Funds and Instant Access Accounts held with Lloyds Bank PLC. The Council may consider the use of other deposit arrangements in accordance with the investment limits and counterparties set out within this strategy.

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

2.19 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.

2.20 The Treasury Management section will in 2021/22 retain the maximum principal investment at £5m 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 3 years in consultation with our Treasury Management Advisers. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports.

2.21 During 2020/21 the Council engaged CCLA Investment Management Ltd and Federated Hermes UK to operate Money Market Funds on behalf of the Council. Both are domiciled in the UK. Federated Hermes UK became operational in September 2020 and CCLA in November 2020.

2.22 In addition the Council opened two instant access accounts with Lloyds Bank PLC. This was necessary as the main counterparty, the DMADF, with whom the Council placed the majority of its short term deposits offered negative returns during part of this accounting period but this change also offers increased diversification to the Council's investment portfolio.

2.23 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

2.24 All Treasury Management activities for the period 1st April to 31st December 2020 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
	01/04/2020			31/12/2020
	£000	£000	£000	£000
PWLB	145,210	0	(791)	144,419
Other Long Term Loans	6,000	0	0	6,000
WG Concessionary Loans (2)	2,600	0	(2,100)	500
Temporary Loans	100	0	0	100
Total	**153,910**	**0**	**(2,891)**	**151,019**

2.25 Loans borrowed from the PWLB are intended to assist local authorities in meeting their longer term borrowing requirements. The above 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 - 31st December 2020 from 4.6996% to 4.6992%.

2.26 Other long term loans represent those non-PWLB loans that are repayable at least one year or more from the date they are advanced. The bulk of this debt is represented by two market loans of £2,000,000 and £4,000,000. The average interest rate on the Authority's outstanding market loans is 5.322%.

2.27 The Concessionary Loans were advanced to the Council by the Welsh Government. Loan 1 for £2.1m was advanced on the 1st April 2015 and was repaid on the 2nd June 2020. Loan 2 for £0.5m was advanced on the 28th March 2019. Both loans were interest free.

2.28 Temporary loans represent loans that have no fixed maturity date. Current loans have been borrowed from The Vale of Glamorgan Welsh Church Act Fund. Interest is calculated on a monthly basis using the "Average 7 Day Rate".

2.29 The Council's investments for the period to 31st December 2020 are set out in the following table.

Investment Counterparty	Opening Balance 01/04/2020 £000	Invested £000	Repaid £000	Closing Balance 31/12/2020 £000
Local Authorities	87,000	154,250	(171,000)	70,250
Debt Management Account Deposit Facility	11,000	1,736,450	(1,745,450)	2,000
Treasury Bills	0	0	0	0
Money Market Funds (MMF)	0	23,000	(14,000)	9,000
Lloyds Instant Access Accounts	0	25,010	(19,550)	5,460
Total	**98,000**	**1,938,710**	**(1,950,000)**	**86,710**

2.30 Interest at an average rate of 0.54% and amounting to £381,877 (including accrued interest from 2019/20) has been received from maturing Local Authority and Debt Management Deposit Facility investments for the first 9 months of 2020/21. The average rate of return on the CCLA Money Market Fund was 0.0552% and on the Federated Hermes Money Market Fund 0.0191% with yields of £569.48 & £256.51 respectively. The Lloyds Instant Access and Monthly Bonus Accounts yielded a return of £156.86 at an average rate of 0.01%. One of accounts offers a monthly bonus if funds were deposited for 1 month but due to the low rates prevailing this bonus was not paid. No funds were invested in Treasury Bills as for the majority of the accounting period under review they offered negative returns.

Annual Minimum Revenue Provision Statement 2021/22

2.31 Capital expenditure when financed by long term debt incurs two elements of cost- interest on 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). Pre 2008 there were detailed statutory rules for the calculation of MRP as laid down in the 2003 regulations but the introduction of the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008 which became effective from the 31st March 2008, replaced these statutory rules with: 'A local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent'.

2.32 Welsh Government has issued guidance on what constitutes prudent provision, and this requires the Council to approve an annual statement of its policy on calculating MRP. The broad aim of the WG Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

2.33 The following statement incorporates options recommended in the Guidance.

2.34 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.

2.35 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. Included in the 2020/21 revenue estimates are principal repayments totalling £408k in respect of prudential (unsupported) Borrowing (i.e. not supported for revenue purposes). Of this funding £64k is in respect of 21st Century Schools. The provision made in respect of these schemes is commensurate with asset life as estimated by the Council's external valuer. Provision of £171k has been made for the repayments against a loan of £1,200,000 for refuse vehicles over an expected life of 7 years and £155k in respect of loans raised for City Deal over a set period of 20 years.

2.36 During 2019/21 & 2020/21 the Council has also taken out interest free loans from Salix for £2.035m. MRP repayments will be in equal instalments over periods of 8, 9 and 10 years. The MRP repayment in 2021/22 is £252k.

2.37 In addition, £464k has been included in respect of the Local Government Borrowing Initiative (LGBI) funding from WG for 21st Century Schools, the Local Road Network Improvement scheme and Affordable Housing. The provision in respect of LGBI schemes is commensurate with the applicable WG funding streams through the Revenue Support Grant. Loans have been raised on an annuity basis so MRP contributions vary annually.

2.38 MRP will be charged at 2% of the outstanding Housing Revenue Account (HRA) Capital Financing Requirement in respect of housing assets.

2.39 For debt incurred after 2021/22 the HRA is required to move to either an Asset Life method or depreciation method for calculating the Minimum Revenue Provision and the Treasury Management Strategy will be updated to reflect this requirement in future years.

2.40 Capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23.

2.41 The estimates associate with the Council's lease liability are not reflected in these estimates as the implementation of IFRS16 accounting standard been postponed until April 2022.

2.42 Based on the Council's latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £000	2021/22 Estimated MRP £000
General Fund		
Supported capital expenditure	108,092	2,923
Unsupported capital expenditure	13,551	1,027
Total General Fund	**121,643**	**3,950**
Housing Revenue Account	79,390	1,610
Total Housing Revenue Account	**79,390**	**1,610**
Total	**201,033**	**5,560**

2.43 The Section 151 Officer considers that the estimated costs of unsupported borrowing are both prudent and sustainable.

Treasury Management Policy

2.44 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 2021/22 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. Resources and Legal Considerations

Financial

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

Employment

4.2 There are no direct employment issues relating to this report.

Legal (Including Equalities)

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

5. Background Papers

CIPFA's "Code of Practice for Treasury Management in the Public Services" (2017 Edition), "The Prudential Code" (2017 Edition) and WG guidance on local authority investments

Committee papers for Audit Committee 31st January 2018 - Proposal to Amend the Minimum Revenue Proposals 2018-19 Policy.

Appendix 1

Treasury Management and Investment Strategy 2021/22

Introduction

The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2021/22 to 2023/24. 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 Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA Statement (17/10/18) on borrowing in advance of need and investment in commercial properties
- 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 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.

The Strategy

The Strategy for 2021/22 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
* Borrowing Strategy (including Current Treasury Position)
* 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

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 – Prudential Indicator No. 1

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	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Actual £000	**Estimate £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
Learning & Skills	20,657	54,311	51,942	17,492	3,100
Social Services	613	1,050	100	1,439	100
City Deal	0	356	2,240	4,480	0
Environment & Transport	11,251	16,155	11,846	4,257	2,174
Resources & Managing Director	10,828	8,086	4,662	2,589	3,795
Non HRA total	**43,349**	**79,958**	**70,790**	**30,257**	**9,169**
HRA	9,539	20,244	36,754	27,760	22,743
Total	**52,888**	**100,202**	**107,544**	**58,017**	**31,912**

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

	2019/2020	**2020/2021**	**2021/2022**	**2022/2023**	**2023/24**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
GCF Grant	3,230	3,403	3,438	2,083	2,083
GCF Supported Borrowing	3,413	3,393	3,429	3,422	3,422
GF Reserves & Revenue	1,576	11,716	14,507	1,146	800
HRA Reserves & Revenue	2,808	14,840	6,392	5,763	5,532
Prudential Borrowing/Appropriation	2,458	4,059	29,879	24,893	14,811
Prudential Borrowing City Deal	0	356	2,240	4,480	0
S106	6,257	8,684	13,177	3,717	1,500
Grant	31,711	49,051	25,912	11,174	3,764
Capital Receipt	1,435	4,700	8,570	1,339	0
Net Financing Need For Year CFR	**52,888**	**100,202**	**107,544**	**58,017**	**31,912**

The Council's Borrowing Need - Capital Financing Requirement (CFR) – Prudential Indicator No. 2

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 scheme 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:

	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Non HRA CFR	119,940	121,643	126,943	136,275	135,257
HRA CFR	79,138	79,390	104,078	121,202	133,183
Total CFR	**199,078**	**201,033**	**231,021**	**257,477**	**268,440**

In-Year Movement CFR	2019/2020 Actual £000	2020/2021 Estimate £000	2021/2022 Estimate £000	2022/2023 Estimate £000	2023/2024 Estimate £000
Non HRA	(4,182)	1,703	5,300	9,332	(1,018)
HRA	4,913	252	24,688	17,124	11,981
Total	**731**	**1,955**	**29,988**	**26,456**	**10,963**

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.).

	2019/2020	2020/2021	2021/2022	2022/2023	2023/24
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Fund Bals / Reserves	96,537	77,942	58,897	56,038	55,392
Capital Receipts	16,475	11,886	3,373	2,334	2,334
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total Core Funds	113,012	89,828	62,270	58,372	57,726
Working Capital	30,225	18,039	13,039	13,039	13,039
Under Borrowing	(45,192)	(42,984)	(32,639)	(28,257)	(26,175)
Expected Investments	**98,045**	**64,883**	**42,670**	**43,154**	**44,590**

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).

Welsh Government regulations have been issued which 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 Council's MRP Statement is set out below.

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 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 with the exception of Affordable Housing, referred to above.

For HRA debt incurred after 2021/22 the Council will implement the "Asset Life Method" for the calculation of MRP by charging the expenditure over the expected useful life of the assets (50 years).

Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until 2022/23.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP has been set as follows:

	31.03.2021 Estimated CFR £000	**2021/22 Estimated MRP £000**
General Fund		
Supported Capital Expenditure	108,092	2,923
Unsupported Capital Expenditure	13,551	1,027
Total General Fund	**121,643**	**3,950**
Housing Revenue Account	79,390	1,610
Total Housing Revenue Account	**79,90**	**1,610**
Total	**201,033**	**5,560**

MRP Overpayments

A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this Authority must disclose any cumulative overpayment made each year.

Economic Background

UK

- The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged in November 2020. However, it revised its economic forecasts to take account of a second national lockdown which will put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out.
- Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to downside risks. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of December, January and February. Upside risks included the early roll out of effective vaccines.
- The UK Government announced that the Pfizer and Oxford University/AstraZeneca vaccines were approved for use on the 6th November and 30th December 2020 respectively. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week which started in January. Unfortunately this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the depressed sectors of the economy like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE carried out by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% month on month in November so the economy may have then been 14% below its pre-crisis level.

- Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5th January 2021 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

- This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases.

- There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- While the UK has been gripped by Brexit and the long running saga of whether or not a deal would be made by the 31st December 2020, the final agreement on the 24th December 2020, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

- At the Monetary Policy Committee (MPC) meeting of the 17th December 2020 all nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30th April to 31st October 2021.

- In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

  An extension of the COVID-19 loan schemes from the end of January to the end of March 2021.

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  The furlough scheme was lengthened from the end of March to the end of April 2021.

The Budget on 3rd March 2021 will lay out the "next phase of the plan to tackle the virus and protect jobs". This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The Financial Policy Committee (FPC) report on 6th August 2020 revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

USA

- The result of the November elections meant that the Democrats gained the presidency, a majority in the House of Representatives and the Senate. As they now control both Houses President Biden now has a free hand to determine policy and to implement his election manifesto.

- The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook, a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

- A $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- The Federal Open Market Committee's (FOMC) updated economic and rate projections in mid-September which showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Federal Bank (FED) has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- At its 16 December meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

Eurozone

- In early December, the figures for quarter 3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In quarter 2, GDP was 15% below its pre-pandemic level. But in quarter 3 the economy grew by 12.5% quarter/quarter leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during quarter 4 and in quarter 1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, the European Central Bank (ECB) has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the Pandemic Emergency Purchase Programme (PEPP) scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of Targeted Long Term Refinancing Operations (TLTRO), (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

China

- After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

World Growth

- World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

- Central banks are likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

- If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt, this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

- The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December 2020, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged.

- The interest rate forecasts in above table have been predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31st December 2020 and therefore there is no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the Covid crisis.

- The PWLB interest rates forecasts are shown as certainty rates (gilt yields + 80 basis points) following the conclusion of the PWLB review on the 25th November 2020.

- As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside Risks to Current Forecasts for Gilt Yields & PWLB Rates

- The UK government could take too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- The Bank of England could take action too quickly, or too far, over the next three years to raise Bank Rate which in turn could cause UK economic growth and increases in inflation to be weaker than currently anticipated.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks could be undermined further depending on extent of credit losses resultant of the pandemic.
- Following the German General Election in 2021 the current Chancellor Angela Merkel will step down. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.

Upside Risks to Current Forecasts for Gilt Yields & PWLB Rates

- A significant rise in inflationary pressures in the UK e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Investment and Borrowing Rates

Investment

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing

- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.

- On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchased of assets for yield.

- Link Asset Services, the Council's Treasury Advisor's long-term forecast for Bank Rate is 2.00%, and as all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty.

- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, higher borrowing costs and lower investment returns, to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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

Balance Sheet Projections

To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2021/22 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2021/22 to 2025/26. The projections also take into account the advice of our Treasury Management Advisers that interest rates are expected to remain low as are investment returns during the period and therefore seeks to maximise the use of reserves and spare cash balances to finance capital expenditure.

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.

	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Capital Financing Requirement	231,021	257,477	268,440	277,286	281,268
Less External Borrowing	(198,382)	(229,220)	(242,265)	(252,176)	(268,968)
Internal Borrowing	**32,639**	**28,257**	**26,175**	**25,110**	**12,300**
Internal borrowing as a % of Capital Financing Requirement	**14%**	**11%**	**10%**	**9%**	**4%**
Reserve/Capital Grant Balances/Provisions	58,897	56,038	55,392	53,504	51,504
Capital Receipts	3,373	2,334	2,334	2,334	2,334
Total Cash Backed Reserves and Provisions	**62,270**	**58,372**	**57,726**	**55,838**	**53,838**
Less External Investments Target	30,000	30,000	30,000	30,000	30,000
Balance Available for Internal Borrowing	**32,270**	**28,372**	**27,726**	**25,838**	**23,838**
Working Capital Surplus	13,039	13,039	13,039	13,039	13,039
Projected External Investments	29,631	30,115	31,551	30,728	41,538
Total Projected Investments Balance	**42,670**	**43,154**	**44,590**	**43,767**	**54,577**

Borrowing Strategy

The Council's borrowing strategy in recent years has been to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This policy has been based on the high levels of reserves held by the Council. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The Council's Final Capital Proposals 2021/22 to 2025/26 forecast borrowing (supported and unsupported borrowing) in the period as set out in the table below totalling £115m (£81m of which is required for HRA). The Council is also projecting to use £9.552m of Capital receipts between 2021/22 and 2025/26.

Scheme	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund						
General Capital Funding Supported Borrowing	3,429	3,422	3,422	3,422	3,422	17,117
Unsupported Borrowing						
21st Century Schools Band B	3,581	4,424	0	0	0	8,005
City Deal	2,240	4,480		0	0	6,720
Vehicles	0	1,236	364	0	0	1,600
Total General Fund	**9,250**	**13,562**	**3,786**	**3,422**	**3,422**	**33,442**
Housing Revenue Account						
Housing Revenue Account	26,298	19,233	14,447	13,092	8,562	81,632
Total Capital Programme Borrowing	**35,548**	**32,795**	**18,233**	**16,514**	**11,984**	**115,074**

In addition as part of the Initial Revenue Proposals 2021/22 the Council is projecting a reduction in its reserves, capital grant balances and provisions of 34% or £26.438m from 2020/21 levels by 2025/26.

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 £37.823m between 2021/22 and 2025/26.

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 £150m as set out in the borrowing requirement table below for the period 2021/22 to 2025/26. 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.

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
New Borrowing	36,000	33,000	18,000	16,000	12,000	115,000
Replacement Borrowing	13,000	4,000	3,000	4,000	11,000	35,000
Total External Borrowing	49,000	37,000	21,000	20,000	23,000	150,000

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.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Head of Finance 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 long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it is felt that there is a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, 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.

Current Portfolio Position

The overall treasury management portfolios as at 31 March and 31st December 2020 are shown below for both borrowing and investments.

Treasury Portfolio - Investments	**31.03.2020**	**31.03.2020**	**31.12.2020**	**31.12.2020**
	£000	**% Return**	**£000**	**% Return**
Local Authorities	87,000	0.7875	70,250	0.6404
Debt Management Account Deposit Facility	11,000	0.4864	2,000	0.0333
CCLA Money Market Funds	0	**0**	5,000	0.0552
Federated Hermes Money Market Fund		**0**	4,000	0.0191
Lloyds Instant Access Accounts	0	**0**	5,460	0.0100
Total Investments	**98,000**		**86,710**	

Treasury Portfolio - Borrowing	**31.03.2020**	**31.03.2020**	**31.12.2020**	**31.12.2020**
	£000	**% Return**	**£000**	**% Return**
Borrowing				
Public Works Loan Board	145,210	4.6996	144,419	4.6992
LOBOS	6,000	5.3220	6,000	5.3220
Concessionary Loans	2,600	0	500	0
Temporary Loans	100	0.5330	100	0.05
Total External Borrowing	**153,910**		**151,019**	
Net Borrowing	**55,910**		**64,309**	

Gross Debt and the Capital Financing Requirement - Prudential Indicator No. 3

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	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
External Debt as at 1st April	155,145	153,910	158,049	198,382	229,220
Expected Change In Debt	(1,235)	(2,893)	(8,667)	(6,162)	(7,955)
Other Long Term Liabilities	0	0	0	0	0
Expected Change In Other Long Term Liabilities	0	0	0	0	0
New Advances	0	6,032	36,000	33,000	18,000
Replacement Borrowing	0	1,000	13,000	4,000	3,000
Gross Debt 31st March	**153,910**	**158,049**	**198,382**	**229,220**	**242,265**
The Capital Financing Requirement	(199,078)	(201,033)	(231,021)	(257,477)	(268,440)
Internal Borrowing	**45,168**	**42,984**	**32,639**	**28,257**	**26,175**

Other long term liabilities need to be updated during 2022/23 to reflect the Council's lease liabilities in accordance with IFRS 16.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 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 reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account the final proposals for capital and revenue.

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 £6M of LOBO (Lender Option Borrower's Option) loans 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 LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £6m. One LOBO loan for £2m will mature in November 2021.

Municipal Borrowing Agency

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Council may make use of this new source of borrowing as and when appropriate. Any intention to borrow will be authorised by the Section 151 Officer and reported to Cabinet for approval prior to any action being taken.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary – Prudential Indicator No. 4

This is the proposed 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	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**
Debt	204,430	239,140	268,091	280,847
Other Long Term Liabilities	0	0	0	0
Total	**204,430**	**239,140**	**268,091**	**280,847**

Other long term liabilities will be included from 2022/23 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

The Authorised Limit for External Debt – Prudential Indicator No. 5

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 considered to be 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, (i.e. 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	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000
Debt	216,333	251,843	275,794	288,550
Other Long Term Liabilities	0	0	0	0
Total	**216,333**	**251,843**	**275,794**	**288,550**

Other long term liabilities will be included from 2022/23 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16.

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 – Prudential Indicator No. 6

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.

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	%	%	%	%
HRA (Rents)	22.42	23.10	23.45	29.95	33.56
Non HRA (Council tax)	3.27	3.19	3.31	3.61	3.94

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 Limits on Fixed Interest Rate and Variable Interest Rate Exposure – Prudential Indicator No. 7

Fixed Interest Rate Exposure	**2020/21 Probable Outturn £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Net Principal Fixed Rate Borrowing	151,949	194,282	225,120	238,166

This is a control over a Council having large concentrations of fixed rate debt needing to be replaced at the same time when interest rates may be relatively high. The upper limit for variable rate exposure measures the extent to which the Council is exposed to the effects of changes in interest rates.

Variable Interest Rate Exposure	**2020/21 Probable outturn £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Net Principal Upper Limit Variable Rate	0	0	0	0

Currently the Council's variable rate exposure is on net investments rather than as a result of borrowing at variable rates. By setting the upper limit as £0 this means the Council will not have more variable rate debt than variable rate investment.

Upper Limit for Principal Sums Invested for Longer Than 364 Days - Prudential Indicator No. 8

	2020/21 Probable Outturn £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Upper limit principal sums invested for over 364 days (per maturity date)	0	10,000	10,000	10,000

Fixed Rate Borrowing Maturity Limit for External Debt - Prudential Indicator No. 9

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 Welsh Local Government Association (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. Savills are an established estate agents that offer various services on financial, investment and asset management and were commissioned by WG to do a piece of work on the removal of the debt cap and possible indicators that could be used. These measures have not yet been agreed but the aim is to include these in some way in business plan submissions in future years.
These measures will be calculated by and managed by local authorities. Welsh Government will not be prescriptive as to parameters for these measures but will facilitate comparison across the sector in agreement with local authorities to provide context for decision making.

Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be 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 as in the current climate short term rates on investments are likely to be lower than rates paid on current debt.

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.

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.

Policy on Apportioning Interest to the HRA

As part of the HRAS Buyout process the Council has reviewed its arrangements for dealing with the pooling of debt. The current approach is that the Council will continue to use a single pool for administering its debt. It is intended that interest will continue to be charged to the HRA using a consolidated rate.

Annual Investment Strategy

The 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.

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 2021/22 the Council will place investments with the Debt Management Account Deposit Facility (DMADF) of the Bank of England, UK Treasury Bills (both are guaranteed by the UK Government), UK Local Authorities (including Police and Fire Authorities), Money Market Funds and Instant Access Accounts held with Lloyds Bank PLC. 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 2021/22 retain the maximum principal investment at £5m and the maximum period of investment to 12 months with Local Authorities. 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 will be £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 Returns Expectations

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

Negative Investment Rates

While the Bank of England said in August &September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November 2020 omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some MMF managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Management of Risk

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's Investment Policy has regard to the following: -

- The Welsh Government's Guidance on Local Government Investments ("the Guidance") issued in April 2010;

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("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 2018.

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 to cover 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 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 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

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
    - 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.

Brexit

The UK's sovereign rating is AA- long term. Having seen an orderly Brexit on the 31st December 2020 following a trade deal on the 24th 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-..

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.

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 Required
UK and Foreign Financial Institutions (A-)	£10M per organisation	£5M per organisation
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 2021/22. 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 investments for the period to 31st December 2020 are set out below.

Investment Counterparty	Opening Balance 01/04/2020	Invested	Repaid	Closing Balance 31/12/20
	£000	£000	£000	£000
Local Authorities including Fire & Police	87,000	154,250	(171,000)	70,250
Debt Management Account Deposit Facility (DMADF)	11,000	1,736,450	(1,745,450)	2,000
Treasury Bills	0	0	0	0
CCLA Money Market Fund	0	9,000	(4,000)	5,000
Federated Hermes Money Market Fund	0	14,000	(10,000)	4,000
Lloyds Instant Access Account	0	25,010	(19,550)	5,460
Total	**98,000**	**1,938,710**	**(1,950,000)**	**86,710**

Interest, at an average rate of 0.54% and amounting to £381,877 (including accrued interest from 2019/20) has been received from maturing Local, Fire & Police Authorities and Debt Management Deposit Facility investments for the first 9 months of 2020/21. The average rate of return on the CCLA Money Market Fund was 0.0552% and on the Federated Hermes Money Market Fund 0.0191% with yields of £569.48 & £256.51 respectively. The Lloyds Instant Accounts yielded a return of £150.86 at an average rate of 0.01%. No funds were invested in Treasury Bills as for the majority of the accounting period under review they offered negative returns.

The above analysis shows that 81.02% of the Council's investments were placed with local, fire & police authorities as at 31st December 2020. The average interest rate return from these investments has fallen from 0.78% in 2019/20 to 0.54% in the first 9 months of 2020/21 against a fall in the bank base rate from 0.75% to 0.10%. Funds placed with the DMADF have yielded investment income at a rate of 0.03% and account for only 2.31% of the investment balance as at 31st December 2020. Funds placed with CCLA & Federated Hermes account for 10.38% and short term deposits with Lloyds Bank PLC 6.29%.

Whilst the Council has no specific exposure, the Section 151 Officer has continued to follow closely the emerging picture in relation to a number of 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 Asset Management and with regard to 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.

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 at this time.

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

The change in legislation in 2018/19 by the Welsh Government now permits the Council to consider the use of Money Market Funds when placing very short term investments as an alternative to the Debt Management Account Deposit Facility (DMADF).

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.

During 2020/21 the Council engaged CCLA Investment Management Ltd and Federated Hermes UK to operate Money Market Funds on behalf of the Council. Both are domiciled in the UK. Federated Hermes UK became operational in September 2020 and CCLA IN November 2020.

Lloyds Instant Access Accounts

In addition the Council opened two instant access accounts with Lloyds Bank PLC during 2020/21. This was necessary as the main counterparty, the DMADF, with whom the Council placed the majority of its short term deposits offered negative returns during part of this accounting period. These accounts offer a very low rate of return but have the benefit of instant availability funds if required.

Ethical Investing

Ethical investing is a topic of increasing interest to members, and one that is also being raised through officers. 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. There is however some evidence already in place with local authority investing, including the incorporation of Environmental, Social and Governance (ESG) ESG metrics into credit rating agency assessment. During 2021/22 there is an expectation that CIPFA will amend the current Treasury Management Code and require Local Authorities to set out how they manage ESG risks associated with their Treasury Management and Investment Strategies. Vale of Glamorgan Council will bring amended reports to Members if this occurs to ensure there is full compliance with the CIPFA Codes.

Climate Change

The Welsh Government (WG) investment guidance published on the 22nd November 2019 requires the following:-

“Local authorities should disclose to what extent investment decisions consider long-term climate risks to support a low carbon economy”.

The Authority currently only invests funds with Local Authorities (including the Police & Fire Services) and the UK Government and borrows only from the PWLB therefore the above disclosure at present is not relevant from a treasury management point of view. Should the local authority expand the counterparties with whom it invests and borrows then the above will be taken account when making any strategic decisions and reported to Members.

External Service Providers

Treasury Management Advisors

The Council appointed Link Asset Management as their external treasury management advisors from September 2018. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- 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 Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The Section 151 Officer may appoint cash or fund managers to manage on its behalf all or part of the Council's investments. Any external manager so appointed will be expected to comply with the Annual Investment Strategy.

External Fund Managers

External cash or fund managers may be appointed by the Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are also required to comply with Guidance on Local Government Investments issued by Welsh Government. The investment criteria imposed on the external managers will be included in the Investment Management Agreement. The Council at present do not engage external fund managers.

Treasury Management Training

The CIPFA Code requires that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training provided by the Council's treasury advisor was undertaken in February 2020 and further training has been arranged for February 2021. The training needs of treasury management officers are periodically reviewed and are assessed as part of the staff appraisal process and from the frequent in-house meetings between the Treasury Management Team and the Section 151 Officer. Link Asset Management, the Council's Treasury Advisors also provide regular on line training seminars to ensure that changes to the Codes of Practice are implanted and adhered to.

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 (CCR) which has been established between the UK Government, the Welsh Government and 10 local authorities in South East Wales. The agreement with the UK and Welsh Governments' provides £1.2 billion of which £734m is allocated to the Metro.

CCR 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 funds and will build the partnerships and R&D intensity to continue generating successively high levels of private leverage.

The CCR has the following projects with approved Full Business Cases (FBC) and in delivery. CSC Foundry, Metro Plus, Outline Business Case-FBC work on Metro Central, Homes for all the Region, the Local Wealth Building Challenge Fund, the Graduate Scheme and Plasma Technology project. CCR also have a number of projects at OBC stage moving towards FBC stages: Pharma Data Technology, Outdoor Adventure Project, Strategic Premises Fund, Life Sciences Park Project, the SME Finance Fund (Housing), the SIPF Front of House Project and the Innovation Investment Fund. In addition to this, there are a number of other projects at early stages of Strategic Outline Case – examples of which include a Full Fibre to the Premise Project and battery technology development Project AMP, as well as cluster development projects for Fintech, Creative Industries and Cyber Wales – the latter for which are in the Strength in Places Fund final business plan preparation at this time. All of these projects and wider programmes of activity are likely to be deliberated on and where approved by Regional Cabinet – in delivery over the five year period.

At its Cabinet meeting on 7th December the latest Strategic Business Plan set out 5 main priorities to guide progress in the next 5 years and as CCRCD begins the process of becoming a full functioning City Region:

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

The total expenditure for the CCR 2021/22 Annual Business Plan is £53.247 Million. It is proposed that this level of expenditure is funded as follows:

- Draw down of HM Treasury Revenue Grant: £4.819 Million
- Draw down of HM Treasury Capital Grant: £22.000 Million
- Draw down of Council Contributions: £26.428 Million (The Vale of Glamorgan's Contribution in 2021/22 is £2.240m).

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.

The Section 151 Officer considers that it is prudent to reflect the current funding proposals in the Treasury Management indicators and the Strategy, however, they will be updated as and when changes in expenditure plans are advised to the Council.

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 and an additional three accounts with Lloyds Bank PLC, Royal Bank of Scotland PLC & Santander UK PLC have now been added in 2020/21 as the various schemes progress.

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.

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 issued draft regulations on 14th November 2019 for consultation and feedback by 31st December 2019, to introduce a statutory over-ride from 1 April 2020 for a four year period until 31 March 2023 following the introduction of IFRS 9, over the requirement for any unrealised capital gains or losses arising from investment in 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 31 March 2023. This will enable councils to initiate an orderly withdrawal of funds if required.

IFRS 16 Leasing

From 1st April 2022 IFRS 16 which deals with the way the Council accounts for its lease arrangements will be introduced. The implementation of IFR16 was originally planned for April 2021 but has been delayed. The revised accounting code requires significant changes for how the Council accounts for contracts that convey the right of use of an asset for a period of time. Whereas the Council currently accounts for all its lessee lease arrangements through revenue income and expenditure, under the new arrangement the Council 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 Council's CFR and the Council 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 Treasury Management indicators and MRP estimates included in this strategy. The accountancy section are currently undertaking an assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements.

Appendix 2

Treasury Management Policy

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

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 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-RM-AC003 Principal Accountant
- W-RM-AC015 Senior Accounting Technician
- W-RM-AC006 Capital Accountant
- W-RM-AC014 Corporate 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.)

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 budget 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.