Appendix 1

Treasury Management and Investment Strategy 2024/25

Introduction

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

- The Treasury Management Strategy sets out the Council's plan for treasury management for the period 2024/25 to 2026/27. 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 considering the following:

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

Prudential Codes of Practice

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

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

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

Welsh Government Investment Guidance

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

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

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

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

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

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

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

- Class Long-term treasury investments, (including pooled funds) as commercial investments unless justified by a cash flow business case.
- Include Pooled funds in the indicator for principal sums maturing in years beyond the initial budget year.
- Amend the knowledge and skills register for officers and members involved in the treasury management function so that it is proportionate to the size and complexity of the treasury management conducted by the Authority.
- Prepare quarterly reporting to members. The Head of Finance/Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The HOF is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.
- Address Environmental, social and governance (ESG) issues within the Authority's treasury management policies and practices.
- Confirm a requirement for local authorities to produce an annual Capital Strategy.

Capital Strategy

- The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

- The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

- The capital strategy is being reported Cabinet on the same agenda as this report. The Strategy itself will be updated bi-annually and evolve over future years.

Reporting Requirements

Treasury Management Reporting

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

  a. **Prudential and Treasury indicators and Treasury Strategy** (this report) The first, and most important report is forward looking and covers:

     - Capital plans, (including prudential indicators)
     - Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
     - Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
     - Annual Investment Strategy, (the parameters on how investments are to be managed)

- **A Mid-Year Treasury Management report** – This is primarily a progress report which will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly monitoring update reports.

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

- **Quarterly Reports – providing updates on Treasury & Prudential Indicators.** These additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is also undertaken by the Corporate

Performance & Resources Scrutiny Committee.

Scrutiny

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

The Treasury Management Strategy

- The Strategy for 2024/25 covers two main areas:

1. Capital Issues

- Capital expenditure plans and the associated prudential indicators.
- Minimum Revenue Provision (MRP) policy statement.

2. Treasury Management

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

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

Treasury Management Training

Treasury Management Officers

- It is a requirement of the CIPFA Code of Practice that the Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills. The Head of Finance / Section 151 Officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.
- The training needs of treasury management officers are periodically reviewed and are assessed as part of the staff appraisal process and from the in-house meetings between the Treasury Management Team and the Head of Finance/Section 151 Officer when required. Link Treasury Services Limited provide regular online training seminars to ensure that changes to the Codes of Practice are incorporated into the framework of the Authority's Treasury Management & Investment strategies and are adhered to Treasury Management officers log all training courses attended in a training folder on the server.

Council Members

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

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

- The Council's treasury advisor Link Treasury Services Limited provides treasury management training for Members, the last training courses taking place on 27th February 2023. Further training has been arranged on 5th February 2024.
- In further support of the revised training requirements, Members will be required to complete a self-assessment form after the training session in February 2024 to assess their knowledge and identify any shortfalls where further training may be required.
- Feedback from the session held in February 2023 was provided by 6 of the attendees and all indicated that they had full or some understanding of the following areas.
    - Understanding of Treasury Management and the relationship to Revenue and Capital Budgets.
    - Current economic position and the future outlook.
    - Council's Borrowing Strategy and borrowing need in future years.
    - Borrowing options available to the Council.
    - What Internal Borrowing is and why the Council utilises Internal Borrowing.
    - Understand the Liability Benchmark.
    - Understand why the Council invests prioritising Security, Liquidity and then Yield.
    - Understand where the Council currently holds investments.
    - Understand the risk profile of the Council's current investments.

- As a minimum, applicable to both officers and members, Councils should carry out the following to monitor and review knowledge and skills:
- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and members.
- Require treasury management officers and members to undertake self-assessment against the required competencies.
- Have regular communication with officers and members, encouraging them to highlight training needs on an ongoing basis.

Treasury Management Consultants

- The Council appointed Link Group, Link Treasury Services Limited as their external treasury management consultants from September 2018 and their contract was renewed in September 2023. The services received include:
- Advice and guidance on relevant policies, strategies and reports.
- Twice yearly strategy meetings
- Balance Sheet Projections
- Advice on investment decisions.
- Notification of credit ratings and changes.
- Other information on credit quality.
- Advice on debt management decisions.
- Accounting advice.
- Reports on treasury performance.
- Forecasts of interest rates; and
- Training courses.

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

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

Capital Expenditure Plans and 2024/25 -2028/29 Prudential Indicators

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

Capital Expenditure and Financing

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

Capital Expenditure	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£M	**£M**	**£M**	**£M**	**£M**
Non HRA	73.599	55.412	28.752	14.194	9.850
HRA	38.745	38.209	41.970	39.634	47.217
Total Capital Expenditure	112.344	93.621	70.722	53.828	57.067

Capital Expenditure	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
By Service	£M	£M	£M	£M	£M
Learning & Skills	25.430	2.360	3.750	4.435	2.000
Social Services	1.731	0.975	0.100	0.100	0.100
Environment & Housing	11.916	5.662	3.685	3.685	3.685
Place	4.335	1.605	1.305	1.305	1.150
Corporate Resources	0.992	0.250	0.569	0.862	0.862
City Deal	0.697	0.810	2.286	0.807	2.053
Pipeline Schemes	28.498	43.750	17.057	3.000	0.000
Housing Revenue Account (HRA)	38.745	38.209	41.970	39.634	47.217
Total Capital Expenditure	**112.344**	**93.621**	**70.722**	**53.828**	**57.067**

- The estimates reflect the Housing Business Plan Proposals and figures also reflect the Final Capital Proposals.
- The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to increase borrowing.

Sources of Capital Financing	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£M	**£M** **£M**	**£M**	**£M**	
Total Capital Expenditure	112.344	93.621	70.722	53.828	57.067
Financed by:					
GCF Grant	3.828	3.540	3.540	3.540	3.540
General Fund Reserves & Revenue	6.547	2.765	0.800	0.800	0.800
HRA Reserves & Revenue	8.197	7.484	7.062	6.660	6.462
S106	1.937	1.492	2.350	2.535	0.000
Grants	49.996	37.024	19.334	5.570	5.570
Capital Receipts (General & HRA)	4.086	2.044	1.166	2.346	2.191
Total Financing	**74.591**	**54.349**	**34.252**	**21.451**	**18.563**
Net Financing need for the year	37.753	39.272	36.470	32.377	38.504
Prudential Borrowing Requirement	**34.307**	**35.826**	**33.024**	**28.931**	**35.058**
Supported Borrowing Requirement	**3.446**	**3.446**	**3.446**	**3.446**	**3.446**
Total	**112.344**	**93.621**	**70.722**	**53.828**	**57.067**

- The Net Financing Requirement in year is reduced by the Minimum Revenue Provision to produce a lower annual change in Debt Liability/Capital Financing Requirement as set out below:

	2024/25 Estimate	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
	£M	**£M**	**£M**	**£M**	**£M**
Prudential Borrowing Requirement	34.307	35.826	33.024	28.931	35.058
Supported Borrowing Requirement	3.446	3.446	3.446	3.446	3.446
Minimum Revenue Provision	(6.092)	(6.669)	(7.542)	(8.392)	(8.922)
Adjusted Net Borrowing Requirement In Year	**31.661**	**32.603**	**29.928**	**23.985**	**29.582**

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

- The Capital Finance Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and so it’s underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset’s life and so charges the economic consumption of capital assets as they are used.
- The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR and therefore the Council’s borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.
- The Council’s CFR projections are listed below:

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	119.160	118.708	127.907	138.889	143.056
HRA CFR	76.462	85.884	108.346	129.967	154.728
Total CFR	**195.622**	**204.592**	**236.253**	**268.856**	**297.784**

In-Year Movement CFR	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£M	£M	£M	£M	£M
Non HRA CFR	(0.434)	(0.452)	9.199	10.982	4.167
HRA CFR	(1.618)	9.422	22.462	21.621	24.761
Total	**(2.052)**	**8.970**	**31.661**	**32.603**	**28.928**

Ratio of General Capital Financing Requirement to Net Revenue Budget

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

	2023/24 Estimate	2024/2025 Estimate
	£M	£M
Net Revenue Budget	272.422	307.974
General Fund CFR	118.708	127.907
%	**44%**	**42%**

Liability Benchmark

- The revised prudential code (December 2021) requires the Council to adopt a debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement.

- CIPFA notes in the 2021 TM Code: “The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash.

- The Council is required to provide a comparison of the existing loan portfolio against the committed borrowing needs. This is to provide evidence that it has a strong grasp of both its existing debt maturity profile and how MRP and other cash flows affect the future debt requirement.

- The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of resources available for investment on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day to day cash flow.

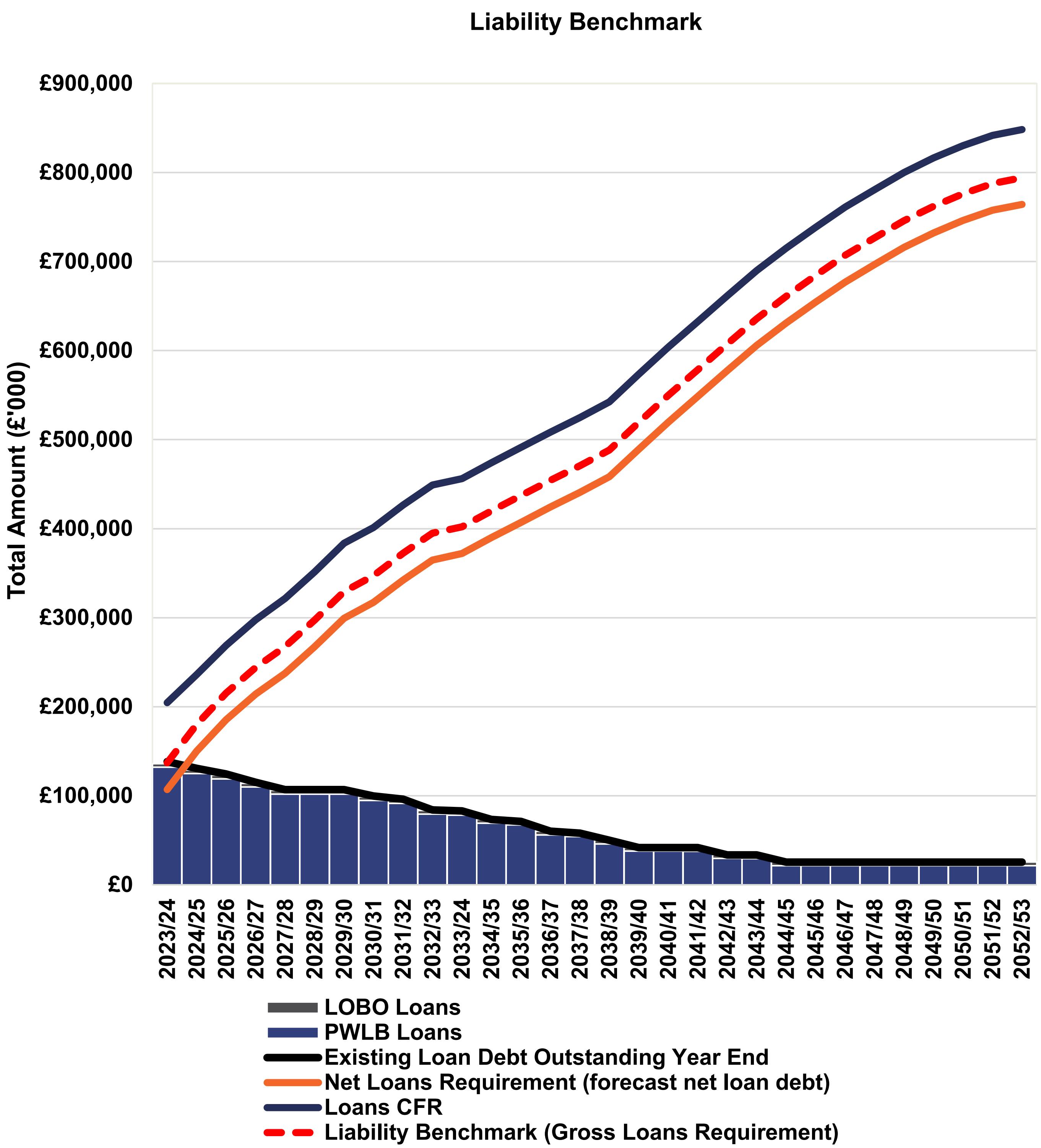
- The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority.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

- There are four components to the Liability Benchmark

1. Existing loan debt outstanding.
2. Loans Capital Financing Requirement (CFR) calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on only approved prudential borrowing and planned Minimum Revenue Provision (MRP).
3. Net loans requirement, detailing the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement) which equals net loans requirement plus short-term liquidity allowance.

- CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark where all balance sheet resources are used to maximise internal borrowing.
- The chart below shows the long-term borrowing impact of the current 30 year capital programme. For illustration, the assumption here is that no new external borrowing is undertaken during this period under review which would not be the case.

Liability Benchmark



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

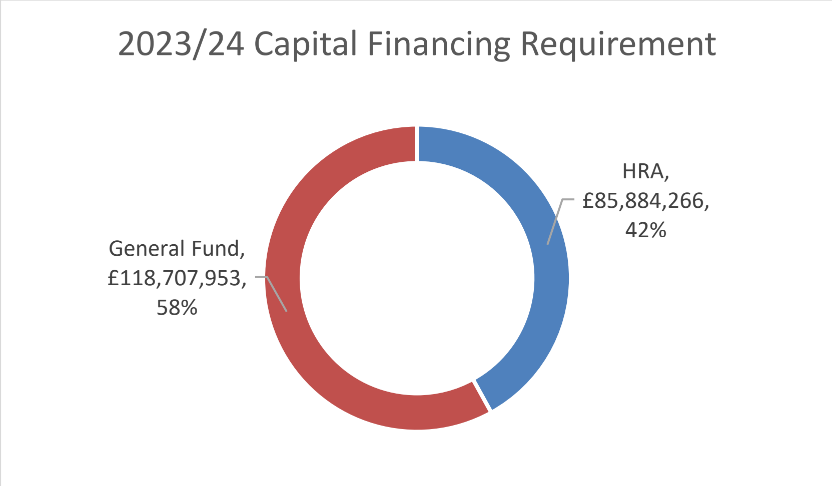
	Projected	Projected	Projected u/o
	CFR	Ext Debt	Borrowing
	£000s	£000s	£000s
2023/24	204.567	138.311	66.256
2024/25	236.229	130.852	105.377
2025/26	268.832	124.498	144.334
2026/27	297.76	115.161	182.599
2027/28	321.744	106.983	214.761
2028/29	351.327	106.918	244.409
2029/30	383.547	106.853	276.694
2030/31	401.251	99.799	301.452
2031/32	426.428	96.09	330.338
2032/33	448.943	84.042	364.901
2033/34	456.124	82.978	373.146
2034/35	474.125	73.362	400.763
2035/36	491.22	71.197	420.023
2036/37	508.459	60.141	448.318
2037/38	524.875	58.062	466.813
2038/39	542.381	49.981	492.4
2039/40	573.343	41.900	531.443
2040/41	603.807	41.817	561.99
2041/42	632.537	41.730	590.807
2042/43	661.648	33.64	628.008
2043/44	689.891	33.548	656.343
2044/45	715.241	25.454	689.787
2045/46	738.465	25.454	713.011
2046/47	761.156	25.454	735.702
2047/48	780.738	25.454	755.284
2048/49	800.021	25.454	774.567
2049/50	816.341	25.454	790.887
2050/51	830.296	25.454	804.842
2051/52	841.700	25.454	816.246
2052/53	848.275	25.454	822.821

- The chart demonstrates the 30-year projection of the Authority’s Liability Benchmark. In year 1 the Councils external debt (the shaded area) exceeds the liability benchmark (the dotted line). This shows the Council is borrowing in excess of the benchmark and not offsetting as much cash as the CIPFA approach suggests. This can be explained as follows:

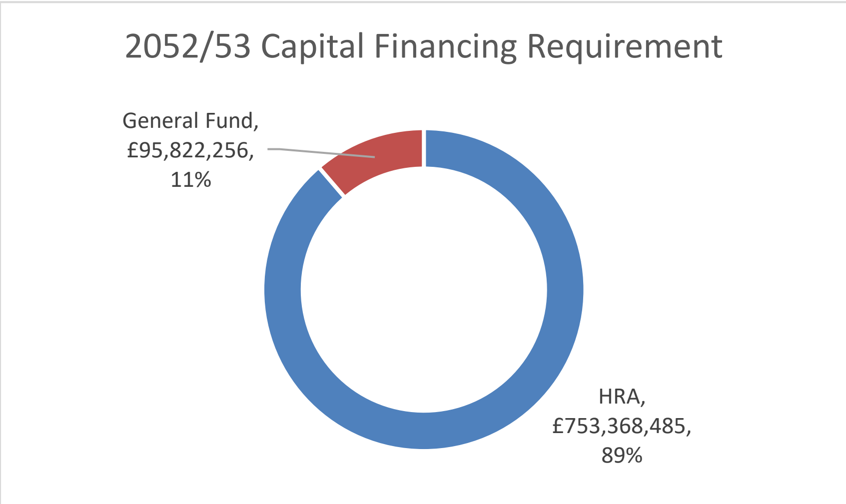
- The Council has some reserves that are ringfenced and cannot be used to finance capital expenditure.
- Some Council reserves need to be cash backed e.g., Housing Revenue Account (HRA)
- Higher than forecast reserve balances as the use of reserves in recent years was less than projected due to the slippage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

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

- The chart shows the Capital Financing Requirement from the Council rising from an estimated £205m in year 1 to £849m in year 30. The majority of this new borrowing need relates to the proposals outlined in the HRA 30 year Business Plan that was approved by Council in January 2024.



- As illustrated in the charts above and below the Business Plan increases the Capital Financing Requirement (CFR) for HRA from £86m or 42% of the overall CFR to £753m or 89% of the Council's Capital Financing Requirement.



- Whilst this is clearly a significant sum it should be noted that all HRA expenditure proposals are subject to stringent affordability requirements, detailed sensitivity analysis and require a pay back over a maximum 60 year period. More detail on the Housing Business Plan can be found in the Cabinet Report linked here.

- Given the significant increase in HRA borrowing the Treasury Team will look to prepare a Liability Benchmark that more clearly distinguishes between General Fund and HRA borrowing for future iterations of the Strategy.

- The Council currently holds significant investments as detailed in this report, but these are expected to reduce as reserves are spent and the latest investment position shows this reduction has taken place to a certain extent in year. The Council will endeavour to maintain a £30m investment buffer as part of the treasury management liquidity benchmark, where this is not achievable it will attempt to rectify the position by the end of the following financial year. The value of this buffer will need to be kept under review in the context of the current inflationary factors.

Core Funds and Expected Investment Balances

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

	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M
Fund Balances / Reserves	111.421	73.562	65.768	64.768	64.999
Capital Receipts	10.630	7.275	3.489	2.045	1.879
Other	0.000	0.000	0.000	0.000	0.000
Total Core Funds	**122.051**	**80.837**	**69.257**	**66.813**	**66.878**
Working Capital	19.008	(2.000)	(2.000)	(2.000)	(2.000)
Under Borrowing	(47.139)	(49.181)	(36.646)	(34.892)	(34.807)
Expected Investments	**93.920**	**29.656**	**30.611**	**29.921**	**30.071**

Minimum Revenue Provision (MRP)

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

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

- Section 35 of the above guidance on MRP commencement states:

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

Minimum Revenue Provision (MRP) Statement

- The Council’s MRP Statement is set out below.
- For supported capital expenditure the Council will implement the "Asset Life2 Method when calculating MRP. MRP will be determined by charging the expenditure over the expected useful life of the average asset lives (40 years) of the (Non HRA) Council Assets in equal instalments, starting in the year after the asset becomes operational.
- For unsupported capital expenditure incurred after 31st March 2008, the Council will also implement the "Asset Life” method. MRP will be determined by charging the expenditure over the expected useful life (maximum 50 years) of the relevant asset in equal instalments, starting in the year after the asset becomes operational.
- MRP will be charged at 2% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets for debt incurred before 2021/22
- From 2021/22 onwards Council will again implement the "Asset Life” method and MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments (50 years), starting in the year after the asset becomes operational.
- Loans advanced for Affordable Housing, Band B Schools and the Highway Net Resurfacing Programme under LGBI schemes are the exception where MRP is calculated on an annuity basis.
- Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until at the earliest the next financial year.
- For the Pipeline schemes it has been assumed that MRP will not be charged

until the schemes have completed.

- Based on the Authority’s latest estimate of its Capital Financing Requirement on 31st March 2024, the budget for MRP has been set as follows:

	31.03.2024 Estimated CFR	2024/25 Estimated MRP
	£M	£M
General Fund		
Supported Borrowing	106.546	3.109
Prudential Borrowing	12.162	1.138
Total General Fund	**118.708**	**4.245**
Housing Revenue Account Borrowing	85.884	1.845
Total	**204.592**	**6.092**

MRP Overpayments

- Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).
- VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.
- The Authority has not made any cumulative VRP overpayments to date.

Economic Background

- The first half of 2023/24 saw:
- Interest rates rise by a further 100 basis points, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- Consumer Price Index (CPI) inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing

in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

- The registering of 0% GDP for Q3 suggesting that underlying growth has lost momentum since earlier in the year. Some of the weakness in July 2023 was due to there being almost twice as many working days lost to strikes in July 2023 (281,000) than in June 2023 (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index (PMI) from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% quarter/quarter rise in real GDP in the period July 2023 to September 2023, being followed by a contraction in the next couple of quarters.
- The 0.4% month/month rebound in retail sales volumes in August 2023 is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August 2023 were 0.2% below their level in May 2023, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, the economy is likely to continue to lose momentum and soon fall into a mild recession.
- Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession.
- But even though the worst of the falls in real household disposable incomes may soon be a thing of the past, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly.
- Higher interest rates will soon bite harder too. The Bank of England to likely keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July 2023 to 0.989m in August 2023 suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since

July 2021. At 3.0% in July 2023, and likely to have fallen to 2.9% in August 2023, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July 2023 offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July 2023 as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- The cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3month year/year rate rose to 7.8% for the period June 2023 to August 2023, which meant UK wage growth remains much faster than in the United States in the Eurozone (EZ).
- CPI inflation declined from 6.8% in July 2023 to 6.7% in August and September 2023, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March 2023.
- In its latest monetary policy meeting at the time of writing on 06 November 2023, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation. Interest rates were also left unchanged at the December 2023 & January 2024 meetings.
- Like the US Federal Bank (the Fed), the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also

gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

Central Bank Concerns – November 2023

- Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.
- Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Prospects for Interest Rates

- The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025	Dec 2025	Mar 2026	Jun 2026	Sep 2026	Dec 2026
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 Mnth Ave Earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 Mnth Ave Earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 Mnth Ave Earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50

25yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Notes to Interest Rate Forecast Table

- The central forecast for interest rates was previously updated on 25 September 2023 and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024. We expect Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent Gross Domestic Product (GDP) releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB Rates

- Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5- and 50-year parts of the curve.

The balance of risks to the UK economy: -

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

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

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

Target Borrowing Rates

- Target Borrowing rates are set two years forward (as rates are expected fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

Looking Forward - Borrowing

- The long-term (beyond 10 years) forecast for Bank Rate has now increased from 2.75% to 3%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority (LA) to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Borrowing

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

Current Portfolio Position

- The overall treasury management debt portfolio as at 31 March and 31 December 2023 is shown below.

External Debt Portfolio	31.03.2023	31.03.2023	31.12.2023	31.12.2023
	£M	% Interest	£M	% Interest
Borrowing				
Public Works Loan Board	141.809	4.44	139.243	4.39
LOBOS	4.000	4.5	4.000	4.5
WG Loans	1.050	0	1.050	0
Salix Loans	1.524	0	1.186	0
Temporary Loans	0.100	0.14	0.000	0
Total External Borrowing	**148.483**		**145.479**	

Balance Sheet Projections

- To assist the Treasury team in arriving at their Borrowing and Investment strategies for 2024/25 balance sheet projections have been prepared. These projections reflect the Final Capital Proposals 2024/25 to 2028/29. The Authority will continue the use of reserves and spare cash balances only when appropriate to finance capital expenditure (internal borrowing) as an alternative to borrowing externally.

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

	2024/25	2025/26	2026/27	2027/28	2028/29
	£M	£M	£M	£M	£M
Capital Financing Requirement	236.253	268.856	297.784	321.768	351.348
Less projected External Loans	(199.607)	(233.964)	(262.977)	(286.997)	(325.196)
Internal Borrowing	**36.646**	**34.892**	**34.807**	**34.771**	**26.152**
Internal borrowing as a % of Capital Financing Requirement	**16%**	**13%**	**12%**	**11%**	**7%**
Reserve/Capital Grant Balances/Provisions	65.768	64.768	64.999	64.657	64.727
Capital Receipts	3.489	2.045	1.879	2.713	2.702
Total Cash Backed Reserves and Provisions	**69.257**	**66.813**	**66.878**	**67.370**	**67.429**

Less External Investments Approximate Target	(30.000)	(30.000)	(30.000)	(30.000)	(30.000)
Balance Available for Internal Borrowing	**39.257**	**36.813**	**36.878**	**37.370**	**37.429**
Working Capital	(2.000)	(2.000)	(2.000)	(2.000)	(2.000)
Projected External Investments	32.611	31.921	32.071	32.599	41.277
Total Projected Investments Balance	**30.611**	**29.921**	**30.071**	**30.599**	**39.277**

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

Gross Debt and the Capital Financing Requirement

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

External Debt	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
External Debt as at 1st April	148.483	155.412	199.607	233.964
Expected Change In Debt	(10.071)	(7.559)	(6.915)	(9.457)
Other Long Term Liabilities	0.000	0.000	0.000	0.000
Expected Change In OLTL	0.000	0.000	0.000	0.000
New Advances	12.000	37.754	39.272	36.470
Replacement Borrowing	5.000	14.000	2.000	2.000
Gross Debt 31st March	**155.412**	**199.607**	**233.964**	**262.977**
The Capital Financing Requirement	(204.592)	(236.253)	(268.856)	(297.784)
Internal Borrowing	**(49.180)**	**(36.646)**	**(34.892)**	**(34.807)**

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

Treasury Indicators: Limits to Borrowing Activity

- Other long term liabilities should be included from 2024/25 to reflect the Council's lease liabilities in accordance with the introduction of IFRS 16 the Council are currently working to calculate the indicative impact of IFRS16 and an amended Treasury Management Strategy will be reported during the 2024/25 financial year reflecting this change. This amended Strategy will be reported to Cabinet and Full Council during 2024/25 as soon as they become available.

The Operational Boundary for External Debt

- This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The proposed Operational Boundary for external debt is based upon estimates of the most likely, prudent, but not worst case scenario. The Operational Boundary links to the Council's plans for capital expenditure, estimates of capital financing requirement and the estimate of cash flow requirements for the year. This is the expected maximum limit for external debt.
- It is lower than the Authorised Limit and cash flow variations may lead to the occasional breach of the Operational Boundary.

Operational Boundary	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
Debt	226.147	255.687	287.406	320.338
Other Long Term Liabilities	0	0	0	0
Total	**226.147**	**255.687**	**287.406**	**320.338**

The Authorised Limit for External Debt

- This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
- The Authorised Limit is the affordable borrowing limit determined in compliance with section 3 (1) of the Local Government Act 2003. It is not a limit that the Council will expect to borrow up to on a regular basis and provides headroom over and above the Operational Boundary.
- These authorised limits set out below are consistent with the Council's current commitments and proposals for capital expenditure and financing and with its Treasury Management Policy. The estimates are based on most likely prudent but not the 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	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	Estimate	**Estimate**	**Estimate**	**Estimate**
	£M	**£M**	**£M**	**£M**
Debt	240.969	271.200	303.939	336.893
Other Long Term Liabilities	0	0	0	0
Total	**240.969**	**271.200**	**303.939**	**336.893**

Borrowing Strategy

- The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, the Capital Financing Requirement, has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

- The Council's Final Capital Proposals 2024/25 to 2028/29 forecast borrowing (supported and unsupported borrowing) in the period are set out in the table below totalling £184.377m (£134.129m of which is required for HRA). The Council is projecting to use £11.833m of Capital receipts between 2024/25 and 2028/29.

Capital Expenditure and Financing

Scheme	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£M	£M	£M	£M	£M	£M
General Fund						
General Capital Funding Supported Borrowing	3.446	3.446	3.446	3.446	3.446	17.230
Unsupported Borrowing						
Unsupported Borrowing Band B	0.000	0.360	0.000	0.000	0.000	0.360
Sustainable Communities for Learning Pipeline Schemes	1.219	7.701	0.000	0.000	0.000	8.920
Appropriation Funded Band B	3.585	0.000	0.000	0.000	0.000	3.585
Non Investment Strategy	3.000	3.000	3.000	3.000	0.000	12.000
City Deal	0.697	0.810	2.286	0.807	2.053	6.653
Buttrills Changing Room Pipeline Scheme	1.500	0.000	0.000	0.000	0.0000	1.500
Total General Fund	**13.447**	**15.317**	**8.732**	**7.253**	**5.499**	**50.248**
Housing Revenue Account						
Housing Revenue Account	24.307	23.955	27.738	25.124	33.005	134.129
Total Capital Programme Borrowing	**37.754**	**39.272**	**36.470**	**32.377**	**38.504**	**184.377**

- In addition, as part of the Initial Revenue Proposals 2024/25 the Council is projecting a reduction in its reserves, capital grant balances and provisions of 54% or £59m from 2023/24 levels by 2028/29.
- 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 £32.593m between 2024/25 and 2028/29.

- In the context of these factors it is possible the Council will not be able to maintain the £30m headroom as an investment target however, it is intended that any shortfall would be rectified in the following financial year, the Council's additional external borrowing requirement is £202.377m as set out in the borrowing requirement table below for the period 2024/25 to 2028/29. 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.

Class of Borrowing	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£M	£M	£M	£M	£M	£M
New Borrowing	37.754	39.272	36.470	32.377	38.504	184.377
Replacement Borrowing	14.000	2.000	2.000	0.000	0.000	18.000
Total External Borrowing	51.754	41.272	38.470	32.377	38.504	202.377

- The accuracy of these estimates will be impacted by the utilisation of reserves as planned and the delivery of the capital programme as profiled. There is a cost of carry associated with borrowing in advance of a borrowing requirement so the Treasury team will keep these factors under review as well as having regard to interest rate projections to minimise the financing costs of the proposed external borrowing.
- Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Head of Finance/Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- If it is felt that there is a significant risk of a sharp fall in borrowing rates (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it is felt that there is a significant risk of a much sharper rise in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.
- Any decisions in respect of new external borrowing will be reported to the Cabinet.

Policy on Borrowing in Advance of Need

- The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
- Having considered the advice of the Council's treasury advisors, the Council will not be seeking to borrow sums in advance of need unless it is considered to be of significant economic benefit by the Section 151 Officer.
- The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

Debt Rescheduling / Repayment

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

    - The reasons for any rescheduling to take place will include:
    - The generation of cash savings and / or discounted cash flow savings.
    - Helping to fulfil the Treasury Strategy; and
    - Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

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

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

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

- Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

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

Approved Methods of Raising Capital Finance

- The Local Government Act 2003 provides that a local authority may borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The Council will continue to borrow from the following sources: -
    - by overdraft or short term from Financial Services Authority authorised banks.
    - from the Public Works Loan Board (PWLB);
    - by means of loan instruments.
    - other local authorities.
    - from the Municipal Bond Agency
    - stock issues.
    - short – term borrowing from any source.
    - other credit arrangements; and
    - Local Capital Finance Company and other special purpose companies created to enable local authority bond issues.

LOBO (Lender Option Borrower's Option)

- The Council holds a £4M of LOBO (Lender Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan. The Council will take the option to repay this LOBO loans at no cost if it can do so. Total borrowing via LOBO loans will be limited to £4m.

Affordability Prudential Indicators

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

Ratio of Relevant Financing Costs to Net Revenue Stream

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

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	%	%	%	%	%
HRA Rents	19.97	20.48	21.74	26.64	30.41
Target	40.00	40.00	40.00	40.00	40.00

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	%	%	%	%	%
Non-HRA	2.58	2.52	2.78	2.88	2.92
Target	5.00	5.00	5.00	5.00	5.00

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

Upper Limit for Principal Sums Invested for Over a Year

- The Authority has set the following limits for investments over 364 days.

	2023/24 Probable £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Limit for investments > a year	£0m	£10m	£10m	£10m

- No borrowing longer than 364 days has been undertaken during 2023/2024 as the UK economy has been amid an interest rate increase environment.

Fixed Rate Borrowing Maturity Limit for External Debt

- These gross limits are set to reduce the Authority’s exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

Housing Revenue Account Prudential Indicators

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

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

Policy on Apportioning Interest to the HRA

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

Investments

Investing in an Inflationary Environment

- The degree to which inflation has taken root has demanded that in developed economies central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade.
- The Bank of England's Monetary Policy Committee made clear at its November 2023 meeting that Bank Rate is likely to remain at least at the current level, 5.25%, for the foreseeable future until it is evident that inflation has been squeezed out of the economy.

CIPFA 2021 revised Treasury Management Codes of Practice

- The Welsh Government and CIPA have extended the meaning of "investments" to include both financial and non-financial investments and requires all investments and investment income to be attributed to one of the following purposes.

Treasury Management

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

Service Delivery

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

Commercial Return

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

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

The Annual Investment Strategy

- The Authority’s investment Strategy policy is determined in parallel with Borrowing Strategy and has been written with consideration to the availability of capital receipts and financial reserves and with regard to the following financial statements.

- Welsh Government Guidance on Local Government Investments (“the Guidance”).
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”).
- CIPFA Treasury Management Guidance Notes 2021.
- The Council’s primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss and to ensure liquidity. Investment income is important but a secondary objective.

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

- 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 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. This is particular importance during 2024/25 as rates are forecast to fall throughout the period that is covered by this strategy.

- 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.

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

Average earnings in each year	
2023/24 (residual)	5.10%
2024/25	4.40%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

- 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, where this is not possible the £30m target should be restored in the following financial year. 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 2024/25 the Council will place investments with:

    - the Debt Management Account Deposit Facility (DMADF) of the Bank of England
    - UK Local Authorities (including Police and Fire Authorities)
    - UK Treasury Bills
    - Money Market Funds (MMFS)
    - Instant Access Accounts held with Lloyds Bank PLC.

Treasury Bills

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

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

- A Treasury Bill (T-Bill) is a short-term debt obligation backed by the Treasury Department of the U.K. Government with a maturity of less than one year, sold in denominations of a minimum of £500,000 with £50,000 increments thereafter. There is a weekly auction held on a Friday with settlement due the following Monday. T-bills have various maturities and are issued at a discount from par. Treasury Bills may also be purchased on the secondary market.
- Contracts for financial services related to the issue or transfer of shares and other instruments are excluded contracts under the Public Contracts Regulations 2015

legislation. Services in relation to our investment in Treasury Bills fall into this exclusion.

Money Market Funds

- Money Market Funds (MMFs) are pooled funds that invest in short- term debt instruments. They provide the benefits of pooled investment as investors can participate in a more diverse and high quality portfolio than they would otherwise individually. Each investor who invests in a money market fund is considered a shareholder of the investment pool, a part owner of the fund.
- The principal objectives of MMF's are preservation of capital, very high liquidity and competitive returns commensurate with security and liquidity. The most important characteristic of a MMF is the highly diversified, high credit quality investments in the fund.
- Assets that a MMF may invest in are securities issued by sovereign governments, treasury bills, investments with the DMADF, certificates of deposits issued by financial institutions, floating rate and medium term notes, commercial paper and very short dated term deposits.
- The maximum funds to be deposited in an individual MMF will be £10m.
- The Council continue to utilise CCLA Investment Management Ltd and Federated Hermes UK to operate Money Market Funds on behalf of the Council. Both are domiciled in the UK.

Lloyds Instant Access Deposit Account

- In September 2023 Lloyds Bank PLC replaced the Instant Access & Monthly Bonus Accounts held by the Authority with a single interest earning deposit account. The rate of return from 0.75% to 5.14% return is more competitive but still poor in relation to the other financial instruments available on the market but does have the benefit of instant availability funds if required.

- 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 2024/25 retain the maximum principal investment set at £5m per institution but may extend the maximum period of investment to 24 months with Local Authorities up to a maximum of £10m if it is considered prudent to do so. Any change on this position will be brought to Cabinet as part of future Treasury Management monitoring reports. The maximum principal that may be invested in MMFs, Lloyds Deposit Account will be set at £10m.
- The Council will continue to use credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service and Standard & Poor's to assess the risk of loss of investment. The lowest available credit rating will be used to determine credit quality. In addition, regard will be given to other available information on the credit quality of banks and building societies.

Environmental, Social & Governance (ESG) Considerations

- This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. While around two thirds of councils have declared a "climate emergency" to date, this has not translated into the incorporation of something more formal within their treasury-related Annual Investment Strategy. Changes to the CIPFA TM Code 2021 saw ESG now incorporated into Treasury Management Practice 1.

Investment Earnings & Performance

- Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.
- Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Negative Investment Rates

- The Bank of England is battling to control inflation which hit 10.1% in November 2022 over five times its target rate of 2%. The UK Economy has entered a period of monetary tightening and bank rate peaked at 5.25% in March 2023. In the circumstances negative interest rates will not feature during this period under review.

Management of Risk

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

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

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

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

Creditworthiness

Credit Rating Criteria

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

- No new investments will be made.
- Any existing investments that can be recalled at no cost will be recalled; and
- Full consideration will be given to the recall of any other existing investments.
- The Section 151 Officer will be notified immediately to consider the appropriate action to be taken, if any, where a credit rating agency announces that it is actively reviewing an organisations credit rating with a view to downgrading it so that it is likely to fall below the Council’s minimum criteria.

Categories and Definitions

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 Treasury Investments

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

Specified Investments

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

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

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

Non-Specified Investments

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

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

Sovereign Rating

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

Investment Limits

- The Authority has set the following investment limits:

Investment Limit	**Short Term (under 12 months)**	**Long Term (12 months+)**
UK Government -Treasury Bills, and DMADF	Unlimited	Unlimited
UK Local Authorities	£5M per organisation.	£5M per organisation
UK Fire & Police Authorities	£5M per organisation.	£5M per organisation
Money Market Funds (AAA)	£10M per organisation	Not Applicable

UK and Foreign Financial Institutions (A-)	£10M per organisation	£5M per organisation
UK Call Bank Accounts in UK Banks	£10M per organisation	Not Applicable

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

Liquidity of Investments

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

- The Council's investment portfolio for the period to 31st of December 2023 is set out below:

Investment Counterparty	Opening Balance		Closing Balance Returned	
	31/03/2023	% Return	30/12/2023	% Return
	£m	£m	£m	£m
UK Local Authorities	47.250		34.500	3.67
Debt Management Office	27.400		0.000	4.77
Treasury Bills	8.250		1.500	4.66
Money Market Funds (MMF)	11.000		14.475	4.89
Lloyds Deposit Account	0.020		0.020	0.60
Total	**93.920**		**50.495**	

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

External Fund Managers

- External cash or fund managers may be appointed by the Head of Finance/Section 151 Officer to manage all or a proportion of its available cash balances. The external managers are required to comply with:
  - The Guidance on Local Government Investments issued by Welsh Government.
  - The Authority's Annual Investment Strategy

Use of Financial Derivatives

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

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

Cardiff Capital Region City Deal

- The Vale of Glamorgan Council is a participant in the Cardiff Capital Region City Deal (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 ringfenced for Metro development.

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

R&D intensity to continue generating successively high levels of private leverage.

- Key highlights showing investment to date are set out below.

    - £6.6m programme to drive business and economic development across South East Wales
    - £4.73m Cluster Development and Growth Programme to nurture priority skills, vital Academic/Industry Partnerships and bespoke Business Growth Programmes.
    - £50m Strategic Premises Fund launched and first investment crystalized in Ebbw Vale for £1.7m for Pulse Plastics.
    - £36.4m purchase and remediation of Aberthaw.
    - £7m investment in Cyber Innovation Hub.
    - £3m investment into the Media Cymru consortium.
    - Unveiling of the CCR Unleash Ambition and Growth conference.
    - Creation of £50m Innovation Investment Capital fund and launch at Principality Stadium.
    - £2.6m Food Sustainability Challenge launched in conjunction with Cardiff and Monmouth.
    - £2m Investment in MedTech company Jellagen, £4m into Yoello and £3m for Apex.
    - CCR Climate Coalition launched.
    - Venture Graduate launched new Accelerator Programme.
    - Cyber Masters cohort successfully graduate, and funding agreed for a second year.

- The Corporate Joint Committee meeting on 29th January 2024 set out the proposed CCR Annual Business Plan for 2024/25 which constitutes Year 4 of the 5-year Strategic Business Plan approved in December 2020. The Business Plan recognises the continuing set of global headwinds that directly affect the UK economy and impact the work, ambitions, and output at a regional level. From a set of challenging geo-political conditions, to increasing global conflict, resultant impacts on world trade, inflation, energy, pressure on public finances and rising costs – the cost of doing business as translated to the cost of living – continue to present both change and challenge.

- Against this backdrop, growing the UK economy has emerged as a consistent goal across all political parties. Economic growth that is place-based, sensitive to the need for inclusion and shared prosperity, is acknowledged as a powerful instrument for reducing poverty, improving quality of life and making faster progress towards sustainable development.

- The need to tackle the challenge of low growth and high inequality is embedded in key aims of the Regional Economic and Industrial Plan (2023-2028). Investing in the model of city-region development to intervene and operate at the right scale to achieve a bigger, fairer and greener economy, that is resilient to shocks is a long term endeavour. Through ambitions to be more competitive, more connected and more resilient, the region can navigate an effective way forward that is attentive to addressing issues for the long-term

  1. COMPETITIVE - Enable businesses within our priority sectors and public services to achieve higher levels of productivity through innovation-led growth.
  2. CONNECTED - Invest in cutting-edge digital and physical infrastructure and grow the green economy through investing in and promoting companies, technologies and community initiatives that are embracing the decarbonisation agenda.
  3. RESILIENT - Maximise 'good growth' by ensuring prosperity is shared and spread across the Region and take direct steps to reduce the economic and social disparities between our places.

- Following the approval of the SEW Corporate Joint Committee 2023/25 Business Plan, the Vale of Glamorgan have reprofiled the City Deal Scheme in the Capital Programme. The Vale of Glamorgan's share of the estimated total costs (8.5%) is projected to be in the order of £10.171m and will be funded by unsupported borrowing with a 25 year repayment period.
- Total expenditure to date for CCR by Local Authorities is £38.518M. The Vale of Glamorgan's contribution to date has been £3.265M, with our next expected contribution of £697k in 2024/25.
- Further detail can be found at Cardiff Capital Region City Deal

Engagement 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.

IFRS 16 Leasing

- The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 which deals with the way the Council accounts for its lease arrangements until 1st April 2024, the 2024/25 financial year.
- The revised accounting code requires significant changes for how the Authority accounts for contracts that convey the right of use of an asset for a period. Whereas the Authority currently accounts for all its lessee lease arrangements through revenue income and expenditure, under the new arrangement the Authority will be required to calculate a right of use asset and a corresponding liability which will be included on its balance sheet. The liability will increase the Authority's CFR and the Authority will need to charge MRP which will in practice be equivalent to the principal of the lease. Despite the extensive accounting requirements and disclosures, this change of accounting policy will not impact the bottom line of the accounts. It will however have an impact on the Prudential indicators and MRP estimates included in this Strategy. An assessment of the likely right of use assets and liabilities associated with the Council's leases and embedded lease arrangements is currently being undertaken and it is intended that revised indicators that incorporate these estimates will be reported as part of the Treasury Management Strategy for 2024/25.