Report of the Section 151 Officer

Council – 2 March 2023

Treasury Management Strategy Statement, Prudential/Treasury Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement 2023/24, Interim Year Treasury Management Review 2022/23 and Annual Report 2021/22

Purpose:	To approve the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2023/24 and note the Interim Year Treasury Management Review 2022/23
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that Council approves the:

1) Approves the Treasury Management Strategy and Prudential Indicators (Sections 2-7) and

2) Approves the Investment Strategy (Section 8) and

3) Approves the Minimum Revenue Provision (MRP) Statement (Section 9)

4) Notes the Interim Year Treasury Management Review 2022/23 (Appendix H)

5) Notes the Annual Treasury Management Report 2021/22 (Appendix I)

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1. Introduction

1.1 This strategy statement has been prepared in accordance with the revised CIPFA Treasury Management Code of Practice adopted by this Council in 2010 which has been recently revised in 2021. The Council's Treasury Management Strategy will be received and reviewed annually by Council and there will also be an interim year report providing summary of progress against that strategy.

The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the scrutiny of the Treasury Management function appreciate fully the implications of the Treasury Management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. CIPFA has adopted the following as its definition of treasury management

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

1.2 CIPFA Prudential Code – Revised 2021

CIPFA amended the Code in 2021. The changes were

- Minor changes to the treasury indicators which were initially developed in 2004
- Additional prudential indicators including the liability benchmark and ratio of net investment income/ net revenue stream
- Clarifying that the definition of 'Investments' above includes:-
- Treasury Management investments (as historically included in this Strategy, as well as
- investments made for policy reasons and managed outside of normal treasury management activity.

- Introduction of additional reporting to Council from 2023/24 re. treasury management activity

1.3 The latter changes are primarily in response to increasing commercialisation activities undertaken by Local authorities. Examples of investments made for policy reasons and managed outside of normal treasury management activity include:-

- 'service investments' held in the course of provision and for the purposes of operational services

- 'commercial investments' which are taken mainly for financial reasons. These may be shares and loans in business structures e.g. subsidiaries; investments explicitly taken with the aim of making a financial surplus for the Council; non financial assets such as investment properties held primarily for financial benefit

1.4 Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, the Code requires that these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that robust procedures for the consideration of risk and return are applied to these decisions. Following the HM Treasury consultation and subsequently issued guidance, PWLB borrowing is now prohibited to fund investments ‘purely for yield’. The PWLB have circulated a set of criteria that needs to be satisfied to secure PWLB finance. This new guidance still allows PWLB borrowing to fund regeneration and operational schemes where they are clearly not undertaken for yield only.

1.5 The Code requires that all investments have an appropriate investment management and risk management framework. This includes making it explicit in any decision making:-

- the powers under which investment is made
- the governance process including arrangements in place to ensure appropriate due diligence to support decision making
- the extent to which capital invested is placed at risk
- the impact of potential losses on financial sustainability
- the methodology and criteria for assessing performance and monitoring process
- how knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.

1.6 The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council’s Investment Properties, which include various freeholds within the City held for strategic property management purposes and (in some cases incidentally) income generation. The principles behind this strategy are outlined in the Capital Strategy, a separate report on this agenda

1.7 The Council will need to adhere to this strategy when considering any new proposals for non treasury investments as well as any updates to existing strategies, practices and reporting such as in the Annual Financial Statement of Accounts. It will be recommended that Council adopt the practices for non treasury investments identified in a separate section of the Treasury Investment Strategy below in 8.7.

1.8 The Local Government Act 2003 requires the Council to have regard to the Prudential Code and to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

The Council is required to formally consider the Prudential and Treasury Indicators as detailed in section 2 of this report

1.9 The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy as required by Investment Guidance issued subsequent to the Act. This strategy sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments. The management of the Council’s Treasury

Management activities are in line with the CIPFA Treasury Management Revised Code of Practice.

1.10 The recommended strategy for 2023/24 is based upon a view on interest rates, having considered leading market forecasts provided by the Council's treasury advisor, Link Asset Services. The overall strategy covers:

- Treasury Limits 2022/23-2026/27
- Prudential / Capital/Treasury Indicators
- The current portfolio position
- Prospects for interest rates including a summary of the economic background
- The Borrowing Requirement
- The Borrowing Strategy
    - Gross v Net Debt Position
    - Liability benchmark
    - Policy on Borrowing in Advance of Need
- Debt Rescheduling
- The Annual Investment Strategy
    - Investment Policy
        - Including non Treasury Investments
    - Interest Rate Outlook
    - Creditworthiness Policy
    - Country Limits
    - Policy on the Use of External Advisors
    - Scheme of Delegation
    - Pension Fund Cash
- Minimum Revenue Provision (MRP) Policy Statement

1.11 A glossary of terms used within this report is attached at Appendix A.

2. Treasury Limits 2022/23 to 2026/27

2.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to set a balanced budget. Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

- increases in capital finance charges (principal and net interest) caused by increased borrowing to finance additional capital expenditure and

- any increases in running costs from new capital projects

are affordable within the projected revenue of the Council for the foreseeable future.

2.2 Under statute, the Council is required to set an Affordable Borrowing Limit i.e a limit which the Council can afford to borrow. In Wales, the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

2.3 The Council must have regard to the Prudential Code when setting the Authorised Limit. This limit requires the Council to ensure that total capital investment remains within sustainable limits. The Authorised Limit must be set for the forthcoming financial year and the two successive financial years.

2.4 The Prudential Code for Capital Finance in Local Authorities requires Councils to calculate treasury indicators (formerly prudential indicators) which demonstrate prudence in the formulation of borrowing proposals. These are defined as:

- The Operational Boundary :
  "…is based on expectations of the maximum external debt of the authority according to probable not simply possible events and being consistent with the maximum level of external debt projected by the estimates…."

- The Authorised Limit :
  "..*the Authorised Limit must therefore be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes..."*

- Upper limits for borrowing of fixed and variable rate loans.
- Upper limit for investments for over 364 days.
- Upper and lower limits for the maturity profile of the Council's debt
- Estimates of the ratio of financing costs to net revenue stream
- Estimates of the capital financing requirement

2.5 In setting and revising Prudential Indicators the authority is required to have regard to:-

- Affordability e.g revenue implications
- Prudence and sustainability e.g. implications for external borrowing
- Value for money e.g. option appraisals
- Stewardship of assets e.g. strategic planning
- Practicality e.g. achievability of forward plans

2.6 It is a requirement of the Code that Prudential / Treasury Indicators are regularly monitored and systems are in place to achieve compliance.

Treasury / Prudential Indicators						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Probable**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure						
GF	145,348	134,004	105,153	56,301	53,828	28,183
HRA	41,717	37,046	50,851	60,245	60,070	62,155
TOTAL	**187,065**	**171,050**	**156,004**	**116,546**	**113,898**	**90,338**
Capital Financing Requirement 31st March						
GF	464,493	513,018	560,029	551,737	547,607	539,993
HRA	160,964	157,234	155,476	175,934	206,079	241,867
Magistrates' Court **	1,150	1,104	1,060	1,018	977	938
Credit Arrangements *	1,140	786	364	140	-	-
Total	**627,747**	**672,142**	**716,929**	**728,829**	**754,663**	**782,798**
Authorised limit for external debt	837,467	828,829	854,663	882,798	882798	882,798
Operational boundary for external debt	777,467	768,829	794,663	822,798	822,798	822,798
Upper limit for fixed interest rate exposure	84.12%/ £518,667	100%/ £828,829	100%/ £854,663	100%/ £882,798	100%/ £882,798	100%/ £882,798
Upper limit for variable rate exposure	15.888%/ £98,000	40%/ £331,532	40%/ £341,865	40%/ £353,119	40%/ £353,119	40%/ £353,119
Upper limit for total principal sums invested for over 364 days	40,000	40,000	40,000	40,000	40,000	40,000

* The GF Capital Financing Requirements includes arrangements classified as credit arrangements (finance leases) under International Financial Reporting Standards (IFRS) requirements as of 2011/12.

However these continue to be budgeted on a revenue basis from the acquiring service and do not form part of the borrowing requirement.

** Legacy Magistrates' Court debt which is wholly recharged and is included for completeness

Maturity structure of fixed rate borrowing during 2023/24-2026/27		
	Upper limit %	**Lower limit %**
Under 12 months	60	0
12 months and within 24 months	60	0
24 months and within 5 years	60	0
5 years and within 10 years	90	0
10 years and above	95	15

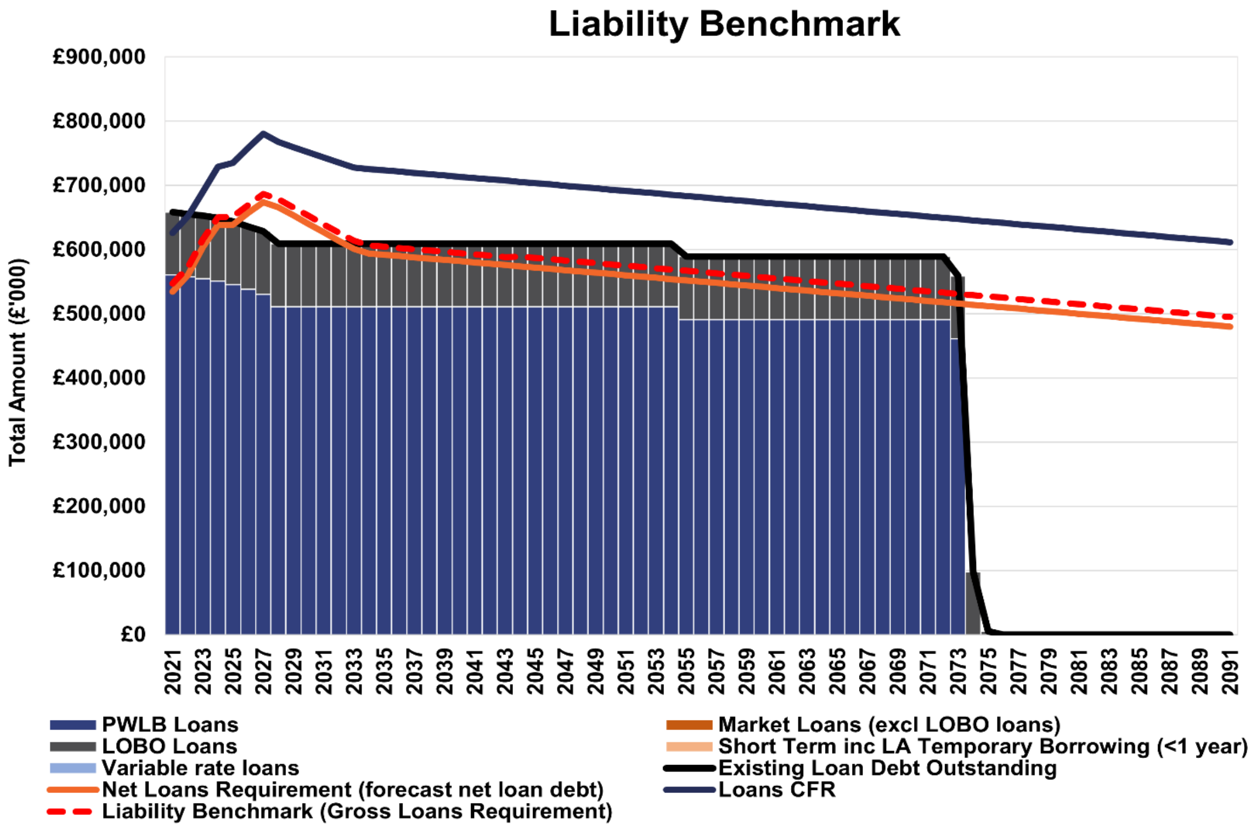
Ratio of Financing Costs to Net Revenue Stream						
	Actual 2021/22 %	**Revised 2022/23 %**	**Estimate 2023/24 %**	**Estimate 2024/25 %**	**Estimate 2025/26 %**	**Estimate 2026/27 %**
General Fund	6.49	6.14	6.20	6.29	6.05	5.81
HRA	15.4	14.89	13.66	13.56	15.04	18.89

Ratio of Net Investment Income Stream to Net Revenue Stream						
	Actual 2021/22 %	**Revised 2022/23 %**	**Estimate 2023/24 %**	**Estimate 2024/25 %**	**Estimate 2025/26 %**	**Estimate 2026/27 %**
General Fund	0.39	0.94	0.88	0.81	0.71	0.61

Gross Debt v Capital Financing Requirement

The gross debt position versus the capital financing requirement is detailed below. The profile below assumes averaged external funding of the internalised borrowing and use of internal balances and by the borrowing requirement informed by the capital programme, however in all likelihood use of internal balances shall be maximised and the actual external borrowing shall be 'lumpier' in profile.

Comparison of average gross debt and capital financing requirement	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	actual	**probable**	**estimate**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Average Debt Outstanding (gross)	654,674	654,674	664,674	694,674	724,674	754,674
Capital Financing Requirement at 31st March	627,747	672,142	686,620	737,102	770,540	795,726
Net Position	-26,927	17,468	21,946	42,428	45,866	41,052



3. The current portfolio position

3.1 The Council's projected debt portfolio position at 31/3/23 comprises:

	Principal outstanding 31 March 2023 £'000	**Average rate of Interest %**
Public Works Loan Board (fixed)	561,080	3.74
Money Market	98,000	4.10
Temporary	1761	1.49
Welsh Govt.	28,799	0.00
Total	**689,640**	**3.55**
And managed separately as required by statute:		
HRA Subsidy Buyout	**73,580**	**4.25**

3.2 The Council's forecast investment portfolio at 31 March 2023 is as follows:

Managed Investments	Investments 31 March 2023	2022/23 Probable Investment Return	2023/24 Estimated Investment Return
	£'000	**%**	**%**
Internally Managed	195,870	1.46	3.5

4. Prospects for Interest Rates

4.1 The Council's Treasury advisers (Link Asset Services) provided the following interest rate forecast for both short term (bank rate) and long term (PWLB) interest rates as at Nov 2022.

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

4.2 Economic Background

Attached at Appendix B is an economic background assessment provided by our Treasury advisers, Link Asset Services. This detailed assessment has informed the proposed strategies. Our central forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and

Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments

4.3 Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible

The balance of risks to the UK

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

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **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, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – 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, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

5. The In Year Borrowing Requirement

5.1 The following outlines the Council's net capital borrowing / repayment requirements (as approved at time of writing) for 2022/23 to 2026/27: Actual borrowing shall not necessarily reflect the profile below. The actual timing of borrowing is informed by best Treasury Management practice, prevailing interest rates and cashflow demands.

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Borrowing and repayment requirements	**Actual**	**Probable**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
To finance new capital expenditure by supported borrowing	6,372	6,347	6,355	6,355	6,355	6,355
To finance new capital expenditure by unsupported borrowing	42,193	55,952	57,988	26,447	45,125	45,269
To replace loans maturing/repaid prematurely/voluntary contributions	3,191	2,776	3,626	5,508	7,508	7,508
Less						
Repayments (MRP)	16,491	17,636	19,125	20,667	21,496	23,480
Set aside capital receipts						
NET IN YEAR BORROWING /(REPAYMENT) REQUIREMENT	**35,265**	**47,439**	**48,844**	**17,643**	**37,492**	**35,652**

5.2 The borrowing requirement above reflects known and approved planned capital expenditure to date as outlined in the *"The Capital Budget and Programme 2022/23 – 2026/27"* and the "HRA Capital Programme 2021/22-2025/26" reports elsewhere on this agenda and may or may not be funded in year or in advance in accordance with the borrowing in advance of need policy as opportunities to borrow affordably arise.

5.3 It can be seen from the *"The Capital Budget and Programme 2022/23 – 2026/27"*, that the capital programme contains a comprehensive programme of major construction projects requiring material capital funding :

A significant portion of the current capital programme is comprised of a number of major regeneration and community construction programmes being undertaken by the Authority:

- The continued investment in Swansea Schools through Band B of the QED/Sustainable Communities for Learning Schools Programme, which now has four completed projects, and one project under construction.
- Swansea Bay City Deal schemes, the completion of Phase 1 the North Block including the Arena with further elements due for completion during the coming 12 months and commencement of construction of Phase 2 Digital Village 71-72 Kingsway Offices
- A continuing programme of IT investment across the Council A significant programme of capital expenditure to assist the City's economic recovery from the Covid 19 pandemic

The additional capital investment identified above will attract significant grant funding (QED/Sustainable Communities for Learning Schools Programme and Swansea Bay City Deal), however the programme will still require material unsupported borrowing to enable completion alongside the use of capital receipts as they are realised. Furthermore some schemes have the potential to provide additional revenue streams of property income, or, subject to agreement, in due course, with Welsh Government, retained elements of non-domestic rates or possibly tax increment financing as further powers devolve to Welsh Government and then on to local government.

Notwithstanding this scale of ambition, each major scheme will, as is always the case, be considered on the overall merits of each business case, both in capital cost, and revenue income streams where appropriate, and unsupported borrowing will be undertaken on a phased basis within the overall medium/long term envelope of affordability.

Furthermore it has to be recognised that the scale of funding proposed to be injected by this Council, leverages in significant additional sums:

- £107m of Welsh Government funding for Band B schools
- a City Deal, worth, across the region, around £1.3 billion.

The Council continues to face significant challenges delivering the Capital Programme during uncertain economic times with high inflation impacting on capital budgets

Band B of the Welsh Government's QEd/Sustainable Communities for Learning Programme represents the largest single component of capital investment incorporated within the proposed capital programme. The numerous schemes comprise new school builds and significant asset improvements for both English and Welsh medium Schools throughout Swansea.

The Swansea City & Waterfront Digital District project is one of nine projects comprising the wider City Deal. It has been developed by the Council, in partnership with University of Wales Trinity Saint David (UWTSD). The core aim of the project is to create a strong and vibrant digital city that will be the economic engine of the wider city region. There are 3 main components: an Innovation Matrix and Innovation Precinct project (led by UWTSD); a Digital Village, which includes 100,000 sq. ft. of flexible and affordable office accommodation for tech businesses (led by the Council); and a Digital Square and Arena which has delivered a 3,500 capacity Digital Arena and associated developments (also led by the Council). A 5 case business model was approved by UK and WG which sets out the project in great detail, including the benefits, costs, procurement process and income derived. After an FPR7 report to cabinet the Digital Square construction has been on site for 24 months and the programme shows completion of the North block in April 2023 and the St David's car park demolition in July 2023. Ambassador Theatre Group (ATG) the Arena operator have signed a 30 year lease, have been operating the arena since March 2022 and have sold 145,000 tickets in a successful first season of events. With regard to Digital Village, a contractor has been procured and funding authorised through an FPR7 report and construction has started with a completion date of October 2023.

The Council, through the Shaping Swansea procurement process, has appointed Urban Splash as a long term development partner and entered into a 20 year Strategic Partnership Agreement. The partner and the Council will then progress the 7 sites as set out in the procurement process. Urban splash are progressing Swansea Central North and the Civic site.

- More Homes and Welsh Housing Quality Standards– A programme of council house refurbishment and a major programme of new council house building utilising new borrowing powers to invest in new Council housing stock.

- Major flood defence project in Mumbles

- Significant capital investment to help the City's economic recovery from the Covid 19 pandemic

5.4 In considering the above, the Council shall determine that its plans are affordable, prudent and sustainable and shall formulate its Treasury Management, Borrowing & Investment Strategy and MRP Policy accordingly.

5.5 The above table in 5.1 details the net borrowing requirement for each financial year. In accordance with the Prudential Code, borrowing must be undertaken in line with a funding plan informed by the projected capital financing requirement. Borrowing may be financed from one or more of Public Works Loan Board loans, money market loans, other local authorities or internal loans. The precise choice and timing will depend on market conditions from time to time and will not necessarily mirror the profiling above. In practice, borrowing shall be optimised when interest rates offer long term value with operational financing being funded from internal cash balances as cashflow allows in accordance with our long term strategy.

Permitted sources of borrowing include:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

5.6 Housing Revenue Account (HRA) Subsidy Reforms - Self Financing Settlement

As outlined in the report approved by Council on 2nd Dec 2014 entitled *"Reform of the Housing Revenue Account Subsidy System"* the Authority has entered into a Voluntary Agreement with Welsh Government to exit the current HRA subsidy system, resulting in more flexibility for the Authority in meeting affordable housing needs in the locale. In order to exit the current HRA subsidy system, a cash settlement amount had to be paid over to HM Treasury equal to a sum determined by formulae agreed in the Voluntary Agreement which resulted in a settlement figure of £73.58m for this Authority. The overriding principle of the HRA Reform is that all local housing authorities will be financially better off in revenue terms after the reforms.

5.7 The HRA reform settlement was required to be made to the Welsh Government on 1 April 2015 which was subject to a separate borrowing strategy dictated by the terms outlined in the Voluntary Agreement. The Council borrowed £73.58m from the PWLB at the agreed interest rate of 4.25% and remitted this total amount to Welsh Government on April 2nd 2015.

5.8 The servicing and amortisation of this pool of debt shall be managed completely separtely from the remainder of the pooled (GF and HRA) debt portfolio as required by statute and this shall be recharged directly to the HRA.

6. Borrowing Strategy

6.1 PWLB borrowing interest rates have been on an upward trajectory in 2022 exacerbated by the Autumn mini budget. Now in retrospect the decision that the S 151 Officer made to take advantage of the unprecedented historically low interest rates and draw down £120m of PWLB borrowing in 2021/22 at historically the lowest interest rates ever drawn down by this Authority (averaging 1.93%) was highly prescient noting the subsequent swift and rapid interest rate movements upwards. . At time of writing, borrowing rates are marginally higher then investment rates. . Considering this, it has been determined that, cashflow dictating, the main strategy for funding the borrowing requirement for the capital programme shall be met by internalising the borrowing.

6.2 Short term savings (by avoiding material new long term external borrowing) will be weighed against the potential additional long term extra costs (by delaying unavoidable new external borrowing until later) when long term rates are forecast to be higher.(see 4.1)

6.3 However, notwithstanding the borrowing activity identified in 6.1 the overall strategy noting where rates are at the present time - with a view to minimising interest costs and the risk of default by counterparties - is therefore to continue to manage the borrowing requirement for operational financing with a view to averaging in the remainder of the borrowing requirement as cashflow and interest rates dictate in the short/medium term.

6.4 Policy on borrowing in advance of need

The Council has only a limited power to borrow in advance of need which is delegated to the S 151 Officer to exercise.

In determining whether borrowing shall be undertaken in advance of need he shall:

- ensure that there is a clear link between the expected capital programme and maturity profile of the existing debt portfolio which supports the need to borrow in advance of need.
- the decision is informed by (up to) the forward 3 year projection of CFR and projected interest rate environment and modelled long term value secured, if undertaken.
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and which repayment profiles to use.

7. Debt Rescheduling

7.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing (as opposed to early repayment of debt) and the setting of a spread between the two rates (of about 0.4%-0.5% for the longest period loans narrowing down to 0.25%-0.30% for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date.

7.2 Due to short term borrowing rates being expected to be cheaper than longer term rates, there may be 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 their short term nature and the likely cost of refinancing short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any rescheduling needs to be considered net of any premium payable which in light of current interest rates is likely to be considerable.

7.3 In actively managing credit counterparty and interest rate risks, consideration will also be given to running down investment balances by repaying debt prematurely as short term rates on investments are likely to be significantly lower than rates paid on current debt.

However, a repayment strategy will only be considered if a loan repayment offers value in terms of discount / associated costs and does not compromise the Council's long term debt management policies. In this respect, we will need to be mindful of the potential future need to arrange new long term loans as market conditions change from time to time.

7.4 Notwithstanding the above, it is envisaged that there will not be any debt rescheduling opportunities in the medium term in the current PWLB portfolio, noting relative value and premiums payable to implement, however there may be opportunities to review the Authority's market debt dependent upon counterparty appetite. Opportunities are received from time to time and appraised and considered in line with 7.3. Any rescheduling decisions will be reported subsequently.

8. The Annual Investment Strategy

8.1 <u>Investment policy</u>

8.1.1 The Council will have regard to the National Assembly of Wales' Guidance on Local Government Investments ("the Guidance") issued in March 2004 (and subsequent amendments); CIPFA's Revised Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Treasury Management Code") and the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 SI 1010(W.107). The Council's investment priorities are: -

(a) to ensure the security of capital
(b) to ensure the liquidity of investments.
and only then
(c) to maximise interest returns (yield) commensurate with (a) and (b)

The investment strategy will be implemented with security of investment as the main consideration. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.1.2 The permitted investment criteria are outlined in Appendix C.

8.1.3 Amendments to the arrangements, limits and criteria detailed in Appendix C may be made by the Section 151 Officer during the year and advised to the Cabinet Member for Economy, Finance & Strategy in the quarter following action.

Appendix G is the list of UK financial institutions (counterparties) which satisfy the Council's minimum credit criteria as at 20th January 2023

8.1.4 It is anticipated that the Council will continue to hold internally managed sums during 2023/24 ensuring a suitable spread of investment risks. The Council has fixed benchmarks against which investment performance will be measured, i.e. the SONIA rate (internally managed). NB (*LIBOR and LIBID rates ceased in 2021, now replaced by SONIA (Sterling Overnight Index Average))*

8.1.5 Interest Rate Outlook:

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

Average earnings in each year	
2023/24	3.5%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

8.1.6 For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest. However longer dated deposits will be made with appropriate counterparties if opportunities arise.

8.1.7 During and following the end of the financial year, the Council will report on its investment activity as part of its Interim Year Treasury Management Report and its Annual Treasury Management Report.

- The Interim Year Treasury Management Report 2022/23 is attached at Appendix H,
- and the Annual Report 2021/22 is attached at Appendix I

8.2 Creditworthiness Policy

This Council uses the creditworthiness service provided by our Treasury Management Advisors. This service has been progressively enhanced over the years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies. Fitch, Moodys and Standard & Poors form the core element. Appendix C outlines the types of investment considered appropriate for investment and the absolute limits in each case.

Appendix C outlines the Council's creditworthiness policy. Details of Fitch's short and long term ratings are at Appendix D.

The creditworthiness service does not rely solely on the current credit ratings of counterparties but also uses the following as overlays: -

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments.

All credit ratings will be monitored regularly with reference to the credit ratings report and updates**.** The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

There will be no future use of a counterparty/investment scheme which fails the credit rating tests.

In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data, market information, information on government support for banks and the credit ratings of that government support and market intelligence re. other counterparties e.g other local authorities.

8.3 Country Limits

The Authority has not made any new overseas deposits for several years since the global financial crisis. Going forward, continued caution will be required when considering future opportunities to make overseas investments. There are no plans to make overseas investments at this time.

If such opportunities arise then the Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide a rating) The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to or deducted from should ratings change in accordance with this policy.

8.4 Policy on the use of external advisers

The Council uses the services of an external Treasury Management adviser namely - Link Asset Services Treasury Management Advisors.

The Council recognises that responsibility for Treasury Management decisions remains with the Council at all times and as such, we will ensure that undue reliance is not placed upon external advisers.

However it is recognised that there is value in employing external advisers in relation to Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8.5 Scheme of Delegation

The role and responsibilities of the Council, Cabinet Member Financial Strategy and the S 151 officer are as follows:

(i) Council
- to receive and review reports on Treasury Management policies, practices and activities
- to receive and review the annual strategy.
- to receive and review amendments to the Authority's adopted clauses, Treasury Management policy statement
- to consider and approve the annual budget
- to receive and review the division of responsibilities

(ii) Cabinet Member for Financial Strategy to receive and review regular briefings/reports
- to receive and review the Treasury Management policy and procedures

(iii) Section 151 Officer
- to recommend clauses, Treasury Management policy for approval

- Implement and keep up to date operational Treasury Management practices
- to review the same regularly and monitor compliance
- to submit Treasury Management policy reports
- to submit budgets and budget variations
- to receive and review management information reports
- to review the performance of the Treasury Management function
- to ensure the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function
- to ensure the adequacy of internal audit, and liaise with external audit
- to appoint external service providers.
- to ensure adequate Treasury Management training for elected members

8.6 Pension Fund Cash

The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which was implemented on 1st January 2010. Any investments made by the Pension Fund will comply with the requirements of SI 2009 No 393. It is recognised that the risk profile of the Pension Fund differs from that of the Council and has outlined how it shall manage cashflow balances in its approved report to The Pension Fund Committee in June 2022 and the Treasury Management Team is delegated to implement the same whilst managing Pension Fund balances.

8.7 Non Treasury Investments

The Council recognises that investment for non-treasury management purposes in other financial assets and property, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and in the case of Swansea Council in investment property portfolios which although do provide a yield are held predominantly for strategic property management purposes. The Council will ensure that all the organisation's investments observe its 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 if undertaking such investments. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Capital Strategy Report also on this agenda outlines the strategy for these non treasury investments . HM Treasury have issued clear borrowing criteria in respect of accessing PWLB financing whereby it prohibits borrowing to finance property transactions primarily undertaken for yield.

8.8 Markets in Financial Instruments Directive II (MIFID II)

The EU Regulation MIFID II came into force in Jan 2018. Pre Jan 2018, this Authority was recognised as a professional investor. The new directive required financial institutions to recognise all investors as retail clients. This ensured maximum protections but also precluded some forms of investments, only available to professional clients. Financial Institutions may elect to opt up clients upon request, if they can demonstrate suitable professional competency and governance frameworks are in place. This Authority has successfully elected to opt up to professional status with all its counterparties and service providers.

9. Minimum Revenue Provision Policy Statement

9.1 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery. It is inappropriate to charge the entirety of this expenditure in the year in which it is incurred i.e the expenditure benefits more than a single year of account. As such, the resulting costs are spread over several years. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP) which was previously determined under Regulation and now is determined under Guidance.

9.2 Statutory instrument WSI 2008 no.588 section 3 states that "..a local authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent,,"

The statutory requirement to make a 2% MRP charge for the Housing Revenue Account share of the Capital Financing Requirement (CFR) until 2020/21 when lifetime of asset shall be adopted as required by Housing Subsidy Buyout legislation is unchanged by this instrument.

9.3 Along with the above duty, the Welsh Assembly Government issued guidance in March 2008 which requires that a Statement on the Council's Policy for its annual MRP should be submitted to the full Council for review before the start of the financial year to which the provision will relate. The Council is legally obliged to 'have regard' to the guidance.

9.4 The Welsh Assembly Government guidance outlined four broad options to adopt for the calculation of MRP. They are:

- Option 1- Regulatory Method
- Option 2 - Capital Financing Requirement Method
- Option 3 - Asset Life Method
- Option 4 – Depreciation Method

The options and guidance are detailed at Appendix F.

9.5 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and revised its MRP Policy for 2019/20 in December 2018 in accordance with the main recommendations contained within the guidance issued by the Welsh Government

9.6 A large proportion of the MRP chargeable will relate to the historic debt liability (pre 2008/09) that historically was amortised on a 4% reducing balance (indefinite timescale) will now be charged at the rate of 2.5%% straight line (definite timescale, and equivalent to amortising over a 40 year asset life). The other capital expenditure funded using 'unsupported borrowing' will under delegated powers be subject to MRP under option 3 which will be charged over a period commensurate with the estimated useful life applicable to the nature of the expenditure or in accordance with the existing capitalisation directive.

9.7 Estimated useful life periods will be determined prudently under delegated powers having taken professional advice in relation to the asset in question. The Section

151 Officer reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

9.8 Going forward, it is proposed that all GF debt arising from capital expenditure supported by the WG through supported borrowing or the Local Government Borrowing Initiative will be charged MRP at 2.5% straight line (equivalent to being amortised over a 40 year asset life) and all other capital expenditure and other ‘capitalised’ expenditure will be repaid under option 3 (useful life) as appropriate unless otherwise superseded by any accompanying capitalisation directive/guidance. All HRA debt to be amortised at 2% until 2020/21 when new borrowing shall be amortised over the useful life of the asset (equivalent to 2.5% annualised or 40 year asset life).

10. Legal Implications

10.1 The Authority is under a duty to make arrangements for the proper administration of its financial affairs. Failure to do so will be a breach of that duty. The statutory provisions and guidance imposing such a duty on the Authority are as set out in the main body of the Report.

11. Integrated Assessment Implications

11.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, and must in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Acts.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.
- Deliver better outcomes for those people who experience socio-economic disadvantage.
- Consider opportunities for people to use the Welsh language.
- Treat the Welsh language no less favourably than English.
- Ensure that the needs of the present are met without compromising the ability of future generations to their own needs.

11.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the ‘well-being goals’.

11.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.

11.4 An integrated impact assessment screening has been undertaken and it concludes that there are no equality impact implications arising from this report. All future programs and schemes covered within this report will be subject to their own Integrated Impact Assessment process.

Background papers:

The revised CIPFA Treasury Management Code of Practice 2011

The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2011

The revised CIPFA Prudential Code for Capital Finance in Local Authorities 2021

Appendices:

Appendix A – Glossary of Terms
Appendix B – Treasury Advisors' View On The Economic Background
Appendix C – Investment Criteria and creditworthiness policy
Appendix D – Credit Rating Agency Definitions
Appendix E – Approved Countries for Investment
Appendix F Minimum Revenue Provision Guidance
Appendix G – Approved Internal Counterparty Lending List
Appendix H- Interim Treasury Management Report 2022/23
Appendix I – Treasury Management Annual Report 2021/22

APPENDIX A

TREASURY MANAGEMENT – GLOSSARY OF TERMS

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit ***(can also be considered as the affordable borrowing limit)***	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- • Borrowing repayable with a period in excess of 12months • Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.

Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	This is a scoring system that lenders issue people with to determine how credit worthy they are. The Credit Rating components are as follows: 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rates, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.
Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be

	noted that the term borrowing used with the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	The financing costs are an estimate of the aggregate of the following:- • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	Investments are the aggregate of:- • Long term investments • Short term investments (within current assets) • Cash and bank balances including overdrawn balances From this should be subtracted any investments that are held clearly and

	explicitly in the course of the provision of, and for the purposes of, operational services.
IMF	International Monetary Fund
LOBO (Lender's Option/ Borrower's Option	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
Managed Funds	<u>In-House Fund Management</u> Surplus cash arising from unused capital receipts and working cashflows can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year. <u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	Consists of financial institutions and deals in money and credit.

	The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their

	investment will now earn less than when the original loan was taken out.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.
Risk	<u>Counterparty Credit Risk</u> The risk that a counterparty defaults on its obligations. <u>Inflation Risk</u> The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure. <u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances. <u>Liquidity Risk</u> The risk that cash will not be available when it is needed. <u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in Treasury Management dealings, and failure to maintain effective contingency management arrangements. <u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.

Set Aside Capital Receipts	A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.
SONIA (sterling overnight index average)	Sterling Overnight Index Average, abbreviated SONIA, is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours and represents the depth of overnight business in the marketplace. It offers an alternative to LIBOR as a benchmark interest rate for financial transactions.
SORP	Statement of Recommended Practice, published by CIPFA (Local Authority Accounting Body). This sets out guidelines regarding the Council's financial matters.
Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days as identified in Appendix C in line with statutory investment regulations. Non-specified investments are all other investments identified in Appendix C in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	Treasury Management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services. "The management of the organisation's cash flows its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

TREASURY ADVISORS' VIEW ON THE ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.5%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

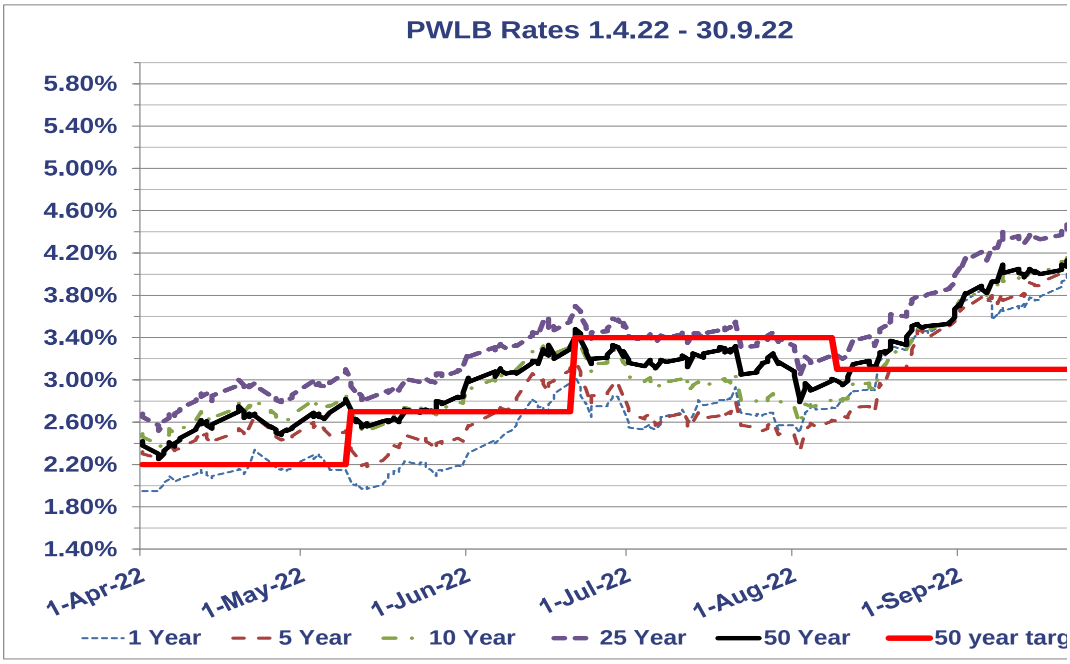
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

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

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

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	5
Low	1.95%	2.18%	2.36%	2.52%	
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/
High	5.11%	5.44%	5.35%	5.80%	
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/
Average	2.81%	2.92%	3.13%	3.44%	
Spread	3.16%	3.26%	2.99%	3.28%	

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

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

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, 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).

Creditworthiness Policy and Investment Criteria

The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks /UK Govt debt*	**yellow**	**£120m**	**5yrs**
Banks	**purple**	**£30m**	**2 yrs**
Banks	**orange**	**£30m**	**1 yr**
Banks – part nationalised	**blue**	**£35m**	**1 yr**
Banks	**red**	**£30m**	**6 mths**
Banks	**green**	**£30m / %**	**100 days**
Banks	**No colour**	**Not to be used**	
Council's banker	**-**	**£35m / %**	**5 yrs**
Other institutions limit	**-**	**£30m**	**1yr**
DMADF	**AAA**	**unlimited**	**6 months**
Local authorities	**n/a**	**£35m**	**5yrs**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds	**AAA**	**£30m / %**	**liquid**
Enhanced money market funds with a credit score of 1.25	**Dark pink / AAA**	**£30m / %**	**liquid**
Enhanced money market funds with a credit score of 1.5	**Light pink / AAA**	**£30m / %**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt*

The Capita Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored before deals are underatken and The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Investment Criteria for Specified and Non Specified Investments

1.1 Investments will be made in accordance with the following terms:

1.1.1 **<u>Specified Investments</u>:**

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable and the principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.)

Instrument	**Minimum Credit Criteria**	**Use**	**Max investment**
Debt Management Agency Deposit Facility	--	In-house	£120M
Term deposits – UK government	--	In-house	£120M
Term deposits – other LAs	--	In-house	£30M with each counterparty
Term deposits – banks and building societies	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
Term deposits – Banks nationalised by highly credit rated sovereign countries	Short-term F1,P1,A1, Long-term AA- Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement

Government guarantee on all deposits by high credit rated sovereign countries	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
UK Government supported banking sector	Short-term F1,P1,A1, Long-term AA- or UK nationalised banks Blue Orange Red Green No Colour	fund managers and In-house 12 months 12 months 6 months 100 days Not for use	£30M with each counterparty/ per agreement
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	See 2 below/£25M with each counterparty
Bonds issued by multilateral development banks	AA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	£25M with each counterparty and per agreement
Bonds issued by a financial institution which is guaranteed by the UK government	AA-	In-house on a 'buy-and-hold' basis. Also for use by fund managers	£25M with each counterparty per agreement
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	£25M with each counterparty per agreement
Corporate Bonds : [under SI 1010 (W.107)]	AA-	In- house Fund Managers	£25M with each counterparty per agreement
Gilt Funds and Bond Funds	AA-	In- house Fund Managers	£30M per agreement
Money Market Funds	AAA	In- house Fund Managers	£25M per agreement
Property/alternative asset funds	AA-	Fund managers	£20M

			per agreement
Floating Rate Notes	AA-	Fund managers	per agreement
Treasury Bills	N/A	Fund Managers	per agreement
Local authority mortgage guarantee scheme	Short-term F1,P1,A1	In-house	£25m with each counterparty

1.1.2 **<u>Non-Specified Investments</u>:**

A maximum of 35% will be held in aggregate of Council managed funds in non-specified investments. A maximum of 50% of aggregate funds managed by the Council's external fund managers will be held in non-specified investments.

Instrument	Min Credit/Colour Criteria	Use	Maximum Period	Maximum Investment
Term deposits – UK government (with maturities in excess of 1 year)		In-house	5 years	£25M
Term deposits – other Local Authorities (with maturities in excess of 1 year)		In-house	5 years	£25M with each counterparty
Deposits with banks and building societies covered by UK government guarantee	Long-term AA- Blue Orange	Fund managers/ in-house	See 2 and 3 below 12 months 12 months	per agreement/£25m with each counterparty
Certificates of deposits issued by banks and building societies covered by UK government guarantee	Long-term AA- Blue Orange	Fund managers/in house	See 2 and 3 below 12 months 12 months	per agreement/£25m with each counterparty
UK Government Gilts	-	Fund Managers/in house	See 2 and 3 below/5 years	per agreement /£25M
Treasury Bills	-	Fund Managers/in house	See 2 and 3 below/5 years	per agreement /£25M
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- Blue Orange	In-house	5 years 12 months 12 months	£25M with each counterparty
Certificates of deposits issued by banks and building societies	Long-term AA-	fund managers/in-house	10 years	per agreement /£25M with

	Blue Orange		12 months 12 months	each counterparty
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers/in house	10 years	See 2 below/£25M with each counterparty
Bonds issued by multilateral development banks	AA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£25M with each counterparty and per agreement
Bonds issued by a financial institution which is guaranteed by the UK government	-	In-house on a 'buy-and-hold' basis. Also for use by fund managers	5 years 10 years	£25M with each counterparty per agreement
Sovereign bond issues (i.e. other than the UK govt)	AAA	In- house Fund Managers	5 years 10 years	£25M with each counterparty per agreement
Corporate Bonds : [under SI 1010 (W.107)]	Long-term AA-	In- house Fund Managers	5 years 10years	£25M with each counterparty per agreement
Gilt Funds and Bond Funds	Long-term AA-	In- house Fund Managers	5 years 10years	£15M per agreement
Money Market Funds	AAA	In- house Fund Managers	n/a n/a	£25M per agreement
Property/alternative asset funds	-	Fund managers	n/a	£20M per agreement
Floating Rate Notes	Long-term AA-	Fund managers	10 years	per agreement
Treasury Bills	N/A	Fund Managers	10 years	per agreement
Local authority mortgage guarantee scheme	Short-term F1,P1,A1 Long-term AA-,	In-house	10 years	£25m with each counterparty

Fitch International Long-Term Credit Ratings

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The major exception is within Public Finance, where IDRs will not be assigned as market convention has always focused on timeliness and does not draw analytical distinctions between issuers and their underlying obligations. When applied to issues or securities, the LTCR may be higher or lower than the issuer rating (IDR) to reflect relative differences in recovery expectations. The following rating scale applies to foreign currency and local currency ratings:

Investment Grade	**Definition**
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.
Speculative Grade	**Definition**
BB	Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.
B	Highly speculative.

	• For issuers and performing obligations, 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favourable business and economic environment. • For individual obligations, may indicate distressed or defaulted obligations with potential for extremely high recoveries. Such obligations would possess a Recovery Rating of 'RR1' (outstanding).
CCC	For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions. • For individual obligations, may indicate distressed or defaulted obligations with potential for average to superior levels of recovery. Differences in credit quality may be denoted by plus/minus distinctions. Such obligations typically would possess a Recovery Rating of 'RR2' (superior), or 'RR3' (good) or 'RR4' (average).
CC	For issuers and performing obligations, default of some kind appears probable. • For individual obligations, may indicate distressed or defaulted obligations with a Recovery Rating of 'RR4' (average) or 'RR5' (below average).
C	• For issuers and performing obligations, default is imminent. • For individual obligations, may indicate distressed or defaulted obligations with potential for below-average to poor recoveries. Such obligations would possess a Recovery Rating of 'RR6' (poor).
RD	Indicates an entity that has failed to make due payments (within the applicable grace period) on some but not all material financial obligations, but continues to honour other classes of obligations.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations. Default generally is defined as one of the following: • Failure of an obligor to make timely payment of principal and/or interest under the contractual terms of any financial obligation; • The bankruptcy filings, administration, receivership,

	liquidation or other winding-up or cessation of business • The distressed or other coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

Fitch International Short-Term Credit Ratings

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations, or up to three years for US public finance, in line with industry standards, to reflect unique risk characteristics of bond, tax, and revenue anticipation notes that are commonly issued with terms up to three years. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

Short Term Rating	**Current Definition**
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.
B	Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.
C	High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.
D	Indicates an entity or sovereign that has defaulted on all of its financial obligations.

APPENDIX E

Countries with approved Credit ratings as at Jan 2023
(NB subject to change and no overseas investments at this time)

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

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- **U.K.**

APPENDIX F

MINIMUM REVENUE PROVISION

1. Government Guidance

The Welsh Assembly Government issued new guidance in March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged by section 21 (1b) to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Where the CFR was nil or negative on the last day of the preceding financial year, the authority does not need to make an MRP provision. MRP in the current financial year would therefore by zero,

Option 1: Regulatory Method

Under the previous MRP regulations, General Fund MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This option is available for the General Fund share of capital financing requirement which relates to capital expenditure incurred prior to 1 April 2008. It may also be used for new capital expenditure up to the amount which is deemed to be supported by the Welsh Assembly Government annual supported borrowing allocation. The use of the commutation adjustment to mitigate the MRP charge is also allowed to continue under this option.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

The guidance suggests that any new borrowing which receives no Government support and is therefore self-financed would fall under option 3

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

Equal instalment method – equal annual instalments which are calculated using a simple formula set out in paragraph 9 of the MRP guidance,

under this approach, the MRP is provided by the following formula

A – B divided by C

A is the amount of capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires

Annuity method – annual payments gradually increase during the life of the asset with an appropriate interest rate used to calculate the annual amount

Under both options, the authority may make additional voluntary revenue provision and this may require an appropriate reduction in later years' MRP

In addition adjustments to the calculation to take account of repayment by other methods (e.g. application of capital receipts) should be made as necessary.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

2. Date of implementation
The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge in respect of the GF share of CFR may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2008, with the MRP policy being formally revised in Dec 2018 to reflect a 2.5% annual charge going forwards from that date.

The guidance suggests that Options 3 and 4 should be applied to any capital expenditure which results in an increase in the CFR and does not relate to the authority's Supported Capital Expenditure.

The guidance also provides the authority with discretion to apply Options 3 or 4 to all capital expenditure whether or not supported and whenever it is incurred.

Any unsupported capitalised expenditure incurred after 1 April 2008 which gives rise to an increase in the GF CFR should be repaid by using option 3 as adapted by paragraphs 23 and 24 of the guidance.

APPENDIX G

Active Internal Credit UK Counterparty List as at 6 February 2023
(subject to change)

Institution	Country	Bank/BS	Fitch Ratings L Term	S Term
Santander Financial Services PLC	UK	Bank	A+	F1
Bank of Scotland PLC	UK	Bank	A+	F1
Barclays Bank PLC (NRFB)	UK	Bank	A+	F1
Barclays Bank UK Plc (RFB)	UK	Bank	A+	F1
Close Brothers Ltd	UK	Bank	A-	F2
Goldman Sachs International Bank	UK	Bank	A+	F1
HSBC Bank PLC (NRFB)	UK	Bank	AA-	F1+
HSBC UK Bank PLC (RFB)	UK	Bank	AA-	F1+
Lloyds Bank Corporate Markets PLC (NRFB)	UK	Bank	A+	F1
Lloyds Bank PLC (RFB)	UK	Bank	A+	F1
Santander UK PLC	UK	Bank	A+	F1
Standard Chartered Bank	UK	Bank	A+	F1
SMBC Bank International PLC	UK	Bank	A-	F1
Coventry Building Society	UK	BS	A-	F1
Leeds Building Society	UK	BS	A-	F1
Nationwide Building Society	UK	BS	A	F1
Skipton Building Society	UK	BS	A-	F1
Yorkshire Building Society	UK	BS	A-	F1
Debt Management Office	UK			
Local Authorities	UK			

APPENDIX H

INTERIM YEAR TREASURY MANAGEMENT REPORT 2022/23

1 Background

1.1 This report is presented in line with the recommendations contained within The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which requires an interim year review of Treasury Management operations to be presented to Council

1.2 Treasury Management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. " A glossary of terms is at Appendix 1.

1.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council in February 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead; a Mid-year Review Report and an Annual Report covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body.

This Interim Year Review Report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first half of 2022/23
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2022/23
- A review of the Council's borrowing strategy for 2022/23
- A review of any debt rescheduling undertaken during 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23

2 Cashflow Management

2.1 As previously reported, the Authority continues to lead in the distribution of Welsh Government grant aid in the wake of the pandemic and the emerging cost of living crisis, often funding the distribution of cash before receiving it form Welsh Government.

2.4 It can be seen the prudent, careful management of Council balances/reserves enables a nimble reactive treasury management function in times of crisis. The Council's Treasury Management function was able to address and meet all the demands above and continues to do so in the ongoing lockdown.

3 Economic Update

3.1
- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
  - Signs of economic activity losing momentum as production fell due to rising energy prices;
  - CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
  - Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.
- The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

- The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

- CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, we would expect to see fuel prices fall further in the coming months.

- However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

- Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

- During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

- Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of

England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

- The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.
- Since the fiscal event on 23rd September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.
- Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.
- Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.
- There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's

deficit. But instead, that it is a temporary intervention with financial stability in mind.

After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

3.2 **PWLB RATES**. Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit we forecast rates to fall back to 3.10% by the end of September 2025.

4 Review of the Treasury Management Strategy Statement and Investment Strategy

4.1 The Treasury Management Strategy Statement for 2022/23 was approved by Council in February 2022. The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council's investment priorities as follows in order of priority:

- Security of capital
- Liquidity
- Yield

4.2 The Council shall aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered only appropriate to invest with highly credit rated financial institutions, using our advisor's suggested creditworthiness appraisal approach, including sovereign credit rating and credit default swap (CDS) overlay information.

4.4 Borrowing rates and available investment interest rates have been on the upward trajectory in 2022/23 exacerbated by the mini budget in Sep 2022, with certain periods of extreme volatility, reflecting the political uncertainty prevailing each time. No borrowing has been undertaken in 2022/23 to date.

4.5 As outlined in Section 3 above, there is still considerable uncertainty and volatility in financial and banking markets, both globally and particularly in the UK, as it comes out of the of the pandemic and emerging inflationary environment. In this context, it is considered that the strategy approved in February 2022 is still appropriate in the current economic climate and has been reviewed whilst considering and formulating the strategy for 2023/24 as funding for capital and cashflow requirements dictate.

4.6 Public Works Loan Board (PWLB)

HM Treasury made a shock determination on the 9th October 2019 affecting all future borrowing from the Public Works Loan Board (PWLB) which would now be subject to an additional 1.00% 'premium' over and above existing margins above prevailing Gilt yields, primarily in response and to deter exponential growth in borrowing to fund speculative investment by a small number of local authorities in England. Strong representations were made via WLGA, and WG about the negative impact this change would have on capital programmes in progress throughout local authorities in Wales.

4.7 Following the strength of representations, HM Treasury launched a consultation process on the PWLB borrowing process. The results of the consultation and accompanying guidance was issued in November 2020 when the 1.00% premium was removed. The accompanying guidance outlines what constitutes eligible expenditure for PWLB borrowing:

The guidance clearly prohibits 'investing primarily for yield' which it defines as:

Investment assets bought primarily for yield would usually have one or more of the following characteristics:

a. buying land or existing buildings to let out at market rate

b. buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification

c. buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly

The guidance DOES allow borrowing for regenerative purposes, which it defines as:

Regeneration projects would usually have one or more of the following characteristics:

a. the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector

b. the local authority is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment *c. the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value*

d. while some parts of the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services

Preventative action would have all of the following characteristics:

a. the intervention prevents a negative outcome, such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease

b. there is no realistic prospect of support from a source other than the local authority

The guidance is also clear that PWLB borrowing cannot be used to replace other Council funds which are then used to finance the 'primarily for yield' investment.

5 Review of Investment Portfolio 2022/23

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite

5.2 A full list of internally managed investments held as at 31st Dec 2022, is shown in Appendix 3. To 31st Dec 2022, the portfolio has returned 0.1% against a SONIA benchmark rate of 0.05%

6 Review of Borrowing 2022/23

6.1 The latest 3 year projected capital financing requirement (CFR) applicable for 2022/23 is £672.142m.. The total outstanding borrowing is now £654.674m0m

7 Review of Debt Rescheduling 2022/23

7.1 Debt rescheduling opportunities are periodically evaluated in this unhelpful environment and and current structure of interest rates of the debt portfolio. No debt rescheduling has been undertaken in 2022/23 to date.

8 Review of Compliance with Treasury & Prudential Limits 2022/23

8.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy Statement.

8.2 During the financial year to date the Council has operated within the Treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Compliance with the Prudential and Treasury Indicators are shown in Section 9.

9.0 Prudential Indicators

Capital Prudential Indicators	2021/22	2022/23
	Outturn	Revised Estimate
	£'000	£'000
Capital Expenditure		
GF	145,348	159,929
HRA	41,717	47,424
TOTAL	**187,065**	**207,353**
Ratio of financing costs to net revenue stream	**%**	**%**
GF	6.01	6.23
HRA	15.14	15.26
Capital Financing Requirement	**£'000**	**£'000**
GF	464,493	499,482
HRA	160,964	163,464
TOTAL	625,457	662,946

Treasury Management Prudential Indicators		
	2021/22	2022/23
	Outturn	Revised Estimate
	£'000 or %	£'000 or %
Authorised limit for external debt	565,198	837,467
Operational boundary for external debt	565,198	777,467
Upper limit for fixed interest rate exposure	82.32%/ £467,198	100%/ £838,197
Upper limit for variable interest rate exposure	17.68%/ £98,000	40%/ £335,279
Upper limit for total principal sums invested for over 364 days	40,000	40,000

Maturity Structure of Fixed Rate Borrowing in 2022/23			
	Upper Limit	Lower Limit	Actual
Under 12 months	50%	0%	0.7
12 months and within 24 months	50%	0%	0.5

24 months and within 5 years	50%	0%	0.1
5 years and within 10 years	85%	0%	9.7
10 years and above	95%	15%	89

The treasury management prudential indicators identified above as:

- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limit for total principal sums invested for over 364 days
- Maturity Structure of fixed rate borrowing in 2022/23

Above figures are as at 30 Sep 2022. None of the above limits/Prudential Indicators have been breached during 2022/23 to date.

Investments as at 30/09/22

Counterparty	**£**
Cornwall Council	10,000,000
Coventry Building Society	7,000,000
Debt Management Office	68,000,000
Goldman Sachs International	20,000,000
Lloyds Bank	15,620,000
Lloyds Bank Corporate Markets	5,000,000
Middlesbrough Council	5,000,000
Plymouth City Council	5,000,000
Santander Bank	26,750,000
SMBC International Limited	5,000,000
Standard Chartered Bank (Sustainable Deposit)	10,000,000
Uttlesford District Council	4,500,000
	181,870,000

Treasury Management Annual Report 2021/22

Executive Summary

1.1 There is an in year capital financing requirement of £71m for 2021/22. As reported in last year's annual report as a post balance sheet date event, £120m of PWLB borrowing at an average interest rate of 1.93% was undertaken in 2021/22 taking advantage of historically low interest rates available at that time which represented the cheapest borrowing ever undertaken by this Authority.

1.2 The average interest rate on outstanding Council borrowing was 3.67% in 2021/22 down from 3.99% 2020/21

1.3 Internally Managed investments achieved a return of 0.15%. This represents an outperformance of +0.01% from the average SONIA benchmark rate of 0.14% returning £0.269m of investment income.

1.4 The Council has operated within all of the determined treasury and prudential limits outlined in Appendix 1.

2. Introduction and Background

2.1 Treasury Management in local government is regulated by the CIPFA Code of Practice on Treasury Management in Public Services (the Code). The City and County of Swansea has adopted the Code and complies with its requirements. A glossary of terms used throughout this report is included at Appendix 2.

2.2 The primary requirements of the Code are the:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the Council of an annual Treasury Management strategy report for the year ahead , a mid term update report and an annual review report of the previous year
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions to the Section 151 Officer.
- Treasury Management, in this context, is defined as:

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

2.3 The Council has previously received in Mar 2021 and updated in March 2022 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2021/22 and The Revised MRP Policy originally approved by Council in Dec 2018.

2.4 The Prudential Code for Capital Finance in Local Authorities has been developed as a professional code of practice to support local authorities in determining their programmes for capital investment. The Code was updated in 2021. Local authorities are required by Regulation under Part 1 of the Local Government Act 2003 to comply with the Prudential Code.

2.5 The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

- Capital expenditure plans are affordable
- All borrowing and long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with professional good practice

2.6 The Code includes a set of Prudential Indicators, which are designed to support and inform local decision-making. The 2021/22 Prudential & Treasury Management Indicators are detailed in Appendix 1.

3. Debt Portfolio

3.1 The Council's external borrowing position at the beginning and end of the year was as follows:

	1 April 2021		**31 March 2022**	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
Long Term Debt				
PWLB - fixed rate	367,500	3.83	487,500	3.79
Money Market (LOBO)	98,000	4.10	98,000	4.10
Welsh Gov	24,647	-	29,382	-
Short Term Debt				
Market	60	0.29	102	0.12
External Bodies	1,411	0.73	1,684	0.28
Average rate		3.99		3.67
HRA Buyout				
PWLB – fixed rate	73,580	4.25	73,580	4.25
Total Debt	565,198		690,248	

3.2 The average external debt portfolio interest rate was 3.67%. (2020/21 3.99%)

4. Actual Borrowing 2021/22

4.1 The Treasury Management strategy 2021/22 originally agreed by the Council in March 2021 and updated in March 2022 projected a total capital financing requirement of £626m as at end of 2021/22.

The general overall strategy was to mitigate the 'cost of carry' in the prevailing economic environment and ensuring that the timing of undertaking external borrowing is such to ensure long term interest rate benefits. As such, having largely fulfilled its historic CFR requirement in 2018/19, no new borrowing was undertaken in 2020/21, however as reported last year as a post year end event , volatility in the GILT markets afforded some opportunistic borrowing undertaken in April, May and June 2021 which sought to mitigate the outstanding funding risk in the remainder of the capital programme approved in Feb 2021 by undertaking record low long term value borrowing at that time, another opportunity arose again in October 2021 whereby further borrowing was undertaken.

Therefore in April, May and June 2021,the S 151 Officer authorised **£75m** of PWLB long term borrowing which was drawn down from HM Treasury :

Date	Amount	Maturity Date	Interest Rate
13th April 2021	£20m	12th April 2070	1.96
13th April 2021	£25m	12th April 2071	1.95
28th May 2021	£15m	27th May 2069	1.91
1st June 2021	£15m	31st May 2068	1.94
TOTAL	**£75m**		**1.94**

Further more to de-risking some of the funding risks extant re. the remaining capital programme and noting the emerging inflationary pressures (energy, fuel, transportation, materials, food, labour markets) which made imminent short term interest rate rises all the more likely. Therefore the S 151 Officer gave the instruction to monitor the volatile Gilt market with a view to take the opportunity to mitigate further funding risk within the Council's approved capital programme and drawdown a further **£45m** of PWLB borrowing.

Therefore on the 15th October 2021, the S 151 Officer instructed the drawdown of £45m of PWLB long term borrowing:

Date	Amount	Maturity Date	Interest Rate
15th Oct 2021	£15m	14th April 2068	1.94
15th Oct 2021	£15m	14th April 2069	1.93
15th Oct 2021	£15m	14th Oct 2070	1.93
TOTAL	**£45m**		**1.93**

The borrowing identified above **NOW** represents the **cheapest long term borrowing ever undertaken by this Authority.**

5. Compliance with Treasury Limits

5.1 During the year, the Council operated within the limits set out in the Council's Treasury Management Strategy 2021/22 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix J.

6. Actual Investments 2021/22

6.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund managers previously. These balances were invested on the Money Market via brokers or directly with banks and building societies, other local authorities and the Debt Management Office (DMO) within the criteria previously approved. The balances held during the year were as follows:

Balance 1 April 2021	Balance 31 March 2022	Average Value 2021/22	Interest	Rate of Return	Benchmark SONIA
£'000 84,500	£'000 206,450	£'000 181,027	£'000 269	% 0.15	% 0.14

6.2 The interest achieved on internally managed investments was £0.269m or 0.15%. This return outperformed the benchmark SONIA by +0.01%.

6.3 As a further measure to mitigate and control risk following the financial crisis, the Authority determined to restrict investments to UK domiciled only banks and financial institutions in October 2008 resulting in an even smaller number of available counterparties to invest with. This policy was maintained in light of continued sovereign debt crises throughout Europe since.

7. Debt Repayment/Rescheduling

7.1 Market conditions are constantly monitored for opportunities to repay or reschedule debt in line with good Treasury Management practice. Appraising the current portfolio, no such opportunities arose in 2021/22 which would be economically beneficial to the Authority.

Prudential & Treasury Management Indicators 2021/22

Prudential Indicators	**2020/21**	**2021/22**	**2021/22**
	Actual	**Budget**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
GF	162,553	159,929	145,348
HRA	41,601	47,424	41,717
TOTAL	204,154	207,353	187,065
Ratio of financing costs to net revenue stream			
GF	5.79	6.23	6.01
HRA	12.93	15.26	15.14
Capital Financing Requirement			
GF	433,916	499,482	464,493
HRA	159,530	163,464	160,964
TOTAL	593,446	662,946	625,457

Treasury Management Indicators			
	2020/21	**2021/22**	**2021/22**
	Actual	**Budget**	**Actual**
	£'000	**£'000 or %**	**£'000**
Authorised limit for external debt	565,198	837,467	837,467
Operational boundary for external debt	565,198	777,467	777,467
Upper limit for fixed interest rate exposure	82.66%/ 467,198	100%/ £838,197	84.12%/ 518,667
Upper limit for variable interest rate exposure	17.34%/ £98,000	40%/ £335,279	15.88%/ 98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

Maturity Structure of Fixed Rate Borrowing in 2021/22			
	Upper Limit %	**Lower Limit %**	**Actual %**
Under 12 months	60	0	0.7
12 months and within 24 months	60	0	0.5
24 months and within 5 years	60	0	0.1
5 years and within 10 years	90	0	9.7
10 years and above	95	15	89

The Treasury Management Prudential Indicators identified above as:

- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limit for total principal sums invested for over 364 days
- Maturity Structure of fixed rate borrowing in 2021/22

are shown as at balance sheet date 31st March 2022, however it can be reported that none of the above limits were breached during 2021/22.

Investments as at 31/03/22

Counterparty	**£**
Cornwall Council	10,000,000
Coventry Building Society	15,500,000
Debt Management Office	77,100,000
Eastbourne Borough Council	5,000,000
Goldman Sachs International	20,500,000
Lloyds Bank	15,350,000
London Borough of Barking and Dagenham	5,000,000
Middlesbrough Council	5,000,000
Santander Bank	20,000,000
SMBC International Limited	10,000,000
Standard Chartered Bank (Sustainable Deposit)	15,000,000
Warrington Borough Council	5,000,000
Wirral Metropolitan Borough Council	3,000,000
	206,450,000