Report of the Section 151 Officer

Council – 6 March 2025

Treasury Management Strategy Statement, Prudential/Treasury Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement 2025/26, Interim Year Treasury Management Review 2024/25 and Annual Report 2023/24

Purpose:	To approve the Treasury Management Strategy Statement, Prudential Indicators, Investment Strategy and Minimum Revenue Provision Policy Statement for 2025/26 and note the Interim Year Treasury Management Review 2024/25
Consultation:	Legal, Finance and Access to Services.
Recommendations:	It is recommended that Council approves the:
1) Treasury Management Strategy and Prudential Indicators (Sections 2-7) and	
2) Investment Strategy (Section 8) and	
3) Minimum Revenue Provision (MRP) Statement (Section 9)	
and notes:	
4) The Interim Year Treasury Management Review 2024/25 (Appendix H)	
5) The Annual Treasury Management Report 2023/24 (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 was 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.

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'. This report covers treasury management financial investments, non financial investments are covered by the capital strategy.

1.5 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.

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.

1.6 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.

1.7 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) provide some income generation. The principles behind this strategy are outlined in the Capital Strategy, a separate report on this agenda.

1.8 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.

1.9 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

1.10 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.

1.11 The recommended strategy for 2025/26 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 2024/25-2028/29

- 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

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

2. Treasury Limits 2024/25 to 2028/29

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						
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Probable**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure						
GF	133,119	137,951	94,346	72,792	101,596	106,995
HRA	37,856	53,542	56,048	59,268	58,848	44,710
TOTAL	**170,975**	**191,493**	**150,394**	**132,060**	**160,444**	**151,705**
Capital Financing Requirement 31st March						
GF	489,295	546,762	569,837	579,950	580,987	590,764
HRA	153,599	163,832	173,466	182,987	193,219	193,134
Magistrates'	1,060	1,018	977	938	919	864

Court **						
Total	**643,954**	**711,612**	**744,280**	**763,875**	**775,125**	**784,762**
Authorised limit for external debt	828,829	844,280	865,125	874,762	872,762	872,762
Operational boundary for external debt	768,829	784,280	805,125	814,762	814,762	814,762
Upper limit for fixed interest rate exposure	85.89% £596,409	100%/ £844,280	100%/ £865,125	100%/ £874,762	100%/ £874,762	100%/ £874,762
Upper limit for variable rate exposure	14.11%/ £78,000	40%/ £337,712	40%/ £346,050	40%/ £349,905	40%/ £349,905	40%/ £349,905
Upper limit for total principal sums invested for over 364 days	0	50,000	50,000	50,000	50,000	50,000

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

Maturity structure of fixed rate borrowing during 2024/25-2028/29		
	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

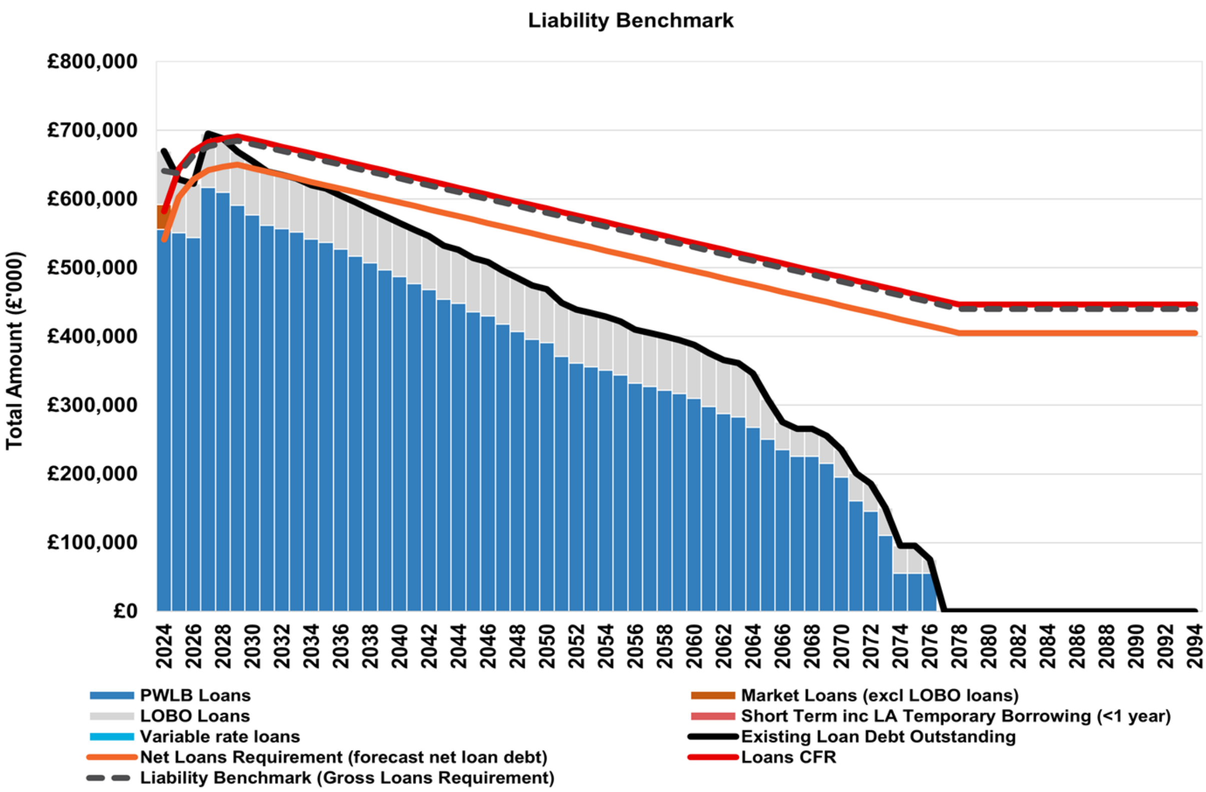
Ratio of Financing Costs to Net Revenue Stream						
General Fund	6.19	5.79	5.61	5.96	5.84	5.63
HRA	14.36	12.56	12.54	13.62	13.84	13.91

Ratio of Net Investment/Commercial Income Stream to Net Revenue Stream						
	Actual 2023/24 %	**Revised 2024/25 %**	**Estimate 2025/26 %**	**Estimate 2026/27 %**	**Estimate 2027/28 %**	**Estimate 2028/29 %**
General Fund	0.26	0.24	0.22	0.22	0.22	0.21

Gross Debt v Capital Financing Requirement

The gross debt position versus the capital financing requirement is detailed below. . The profile and liability benchmark therefore shows an under borrowed position 2024/25 onwards however the S 151 Officer shall determine externalising the net position when interest rates and opportunities arise and as cashflow dictates .

Comparison of average gross debt and capital financing requirement	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	actual	probable	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Average Debt Outstanding (gross)	693,179	673,566	650,000	730,000	710,000	690,000
Capital Financing Requirement on 31st March	643,954	711,612	744,280	763,875	775,125	784,762
Net Position	-49,225	38,046	94,280	33,875	65,125	94,762



3. The current portfolio position

3.1 The Council's projected debt portfolio position at 31/3/25 comprises:

	Principal outstanding 31 March 2025 £'000	Average rate of Interest %
Public Works Loan Board	482,500	3.68
Money Market	78,000	4.09
Temporary	1,904	4.07

Welsh Govt.	35,767	0.00
Total	**598,171**	**3.52**
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 2025 is as follows:

Managed Investments	**Investments 31 March 2025**	**2024/25 Probable Investment Return**	**2025/26 Estimated Investment Return**
	£’000	**%**	**%**
Internally Managed	159,350	5.19%	4.1%

4. Prospects for Interest Rates

4.1 The Council’s Treasury advisers (MUFG) provided the following interest rate forecast for both short term (bank rate) and long term (PWLB) interest rates as at Nov 2024.

MUFG Corporate Markets Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

4.2 <u>Summary of Economic Background provided by Treasury Advisors MUFG</u>

- Attached at Appendix B is a comprehensive Economic background provide by Treasury Advisors MUFG. Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, central forecasts have been revised for the first time since May. In summary, the Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect the increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If one reflects on the 30 October Budget, the central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the

Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- The central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. It is forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding the PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, there has been little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, generally, geo-political risks abound in Europe, the Middle East and Asia.

- The revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

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 2023/24 to 2027/28: 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 as determined by the S 151 Officer.

Borrowing and repayment requirements	**2023/24 Actual**	**2024/25 Probable**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
To finance new capital expenditure by supported borrowing	6,355	6,385	6,366	6,366	6,366	6,366
To finance new capital expenditure by unsupported borrowing	27,537	80,124	47,251	35,792	28,419	27,319
To replace loans maturing/repaid prematurely/voluntary contributions	5,508	7,508	7,508	19,508	14,508	24,000
Less						
Repayments (MRP)	17,501	17,268	19,405	21,058	22,088	22,598
Set aside capital receipts						
NET IN YEAR BORROWING /(REPAYMENT) REQUIREMENT	**21,899**	**76,749**	**41,720**	**40,608**	**27,205**	**35,807**

5.2 The borrowing requirement above reflects known and approved planned capital expenditure to date as outlined in the "The Capital Budget and Programme 2024/25 – 2029/30" and the "HRA Capital Programme 2024/25-2028/29" reports elsewhere on this agenda and in all likelihood due to previous funding activity shall not be funded in year or in advance in accordance with the borrowing in advance of need policy,(in large due to the interest rate environment and short term cash surplus) however this may change as opportunities to borrow affordably arise.

5.3 It can be seen from the "The Capital Budget and Programme 2024/25 – 2029/30", that the capital programme contains a comprehensive programme of major construction projects requiring material capital funding:

5.4 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:

5.5 The updated total Capital programme which includes QED/Sustainable Communities for Learning Schools Programme and Swansea Central City Deal schemes highlights a 5 year forward expenditure programme plus current year of £543.616m identifying an unsupported borrowing requirement of £162.589m reported in the above named report. The capital planning envelope for unsupported borrowing requires significant revenue funding to service the finance and this is set out in both the reports on the revenue budgets and the medium-term financial plan.

5.6 Phased, considered affordable borrowing, within the overall planning envelope has developed over recent years and, in the case of the funding, from the City Deal, across the next 10 years. Some Major schemes within the General Fund Capital Programme which are partially or fully financed by borrowing are as follows:

- Swansea Central Arena phased development
- Digital Village, 71-72 Kingsway offices
- Y Storfa (Community Hub) development
- Lower Swansea Valley (Including Hafod-Morfa Copperworks, River Tawe Link and Swansea Museum schemes)
- Castle Square Regeneration
- Palace Theatre development
- Depot Review acquisition and replacement
- St Helens ground redevelopment

5.7 Although there is significant accompanying grant funding and City Deal funding for a number of these schemes, there is a substantial unsupported borrowing requirement to underwrite these schemes.

Schools Programme and Financing 2024/25 – 2029/30

5.8 In July 2017 Cabinet endorsed the council's Band B of the 21st Century Schools Strategic Outline Programme and the proposed capital investment priorities. Since the initial approval there have been several other changes within the programme. The Welsh Government capital grant intervention rate was set at 50% for Band B, but Welsh Government announced on 21 November 2018, that the Band B intervention rate for capital projects would be increased to 65%, and for special schools and PRUs to 75%. The intervention rate for voluntary aided projects remained unchanged at 85%. In September 2023, Cabinet endorsed an uplift to the programme envelope to £176m, with a switch to wholly capital funding (instead of using the Mutual Investment Model for some of the projects).

5.9 Since 2017, the remaining Band A project – a new build for Gorseinon Primary School – has been completed. The completed Band B projects are new builds for the Pupil Referral Unit (Maes Derw), YGG Tan y Lan and YGG Tirdeunaw, and new blocks and refurbishment and remodelling for Ysgol Gyfun Gwyr and Bishopston Comprehensive School.

5.10 Band B ended on 31 March 2024 and councils were required to submit a new Strategic Outline Programme (SOP) to the Welsh Government for a rolling programme by 31 March 2024.

5.11 The nine-year capital programme, extending to 2032/33 and including an indicative funding forecast for the nine years, was required to be submitted to the Welsh Government for consideration towards providing a commitment and support for the first three years along with in-principle support for years 4, 5 and 6, with years 7 to 9 reflecting the longer-term project pipeline. Band B projects not yet completed to be included at the beginning of the nine-year capital programme.

5.12 The new draft rolling programme was the subject of a separate report submitted to Cabinet on 15 February 2024 which detailed the expected costs and funding. The report was approved at Cabinet and the Strategic Outline Programme was submitted to the WG in March 2024.

5.13 In a letter dated the 12 August 2024, WG advised the council that 'Approval [was given] in principle for projects in Years 1-6, subject to individual business case approval, noting that Welsh Language Impact Assessments (WLIAs) will be required for the LDP projects, and the LA should explore all opportunities to increase Welsh medium provision.'

Swansea Central City Deal Programme and Financing

5.14 Each of the investment priorities will be subject to detailed business case development and further WG approvals, together with separate reports to Cabinet for decision. Some of the priorities may require statutory consultation and catchment area reviews. These will be the subject of separate Cabinet reports
Swansea Central City Deal Programme and Financing

The Swansea Central City Deal Phase 1 Arena scheme construction phase was approved at Cabinet on 21 November 2019 at a cost of £134.837m, subsequently increased for additional elements to £148. 461m.The detailed outstanding financing for this scheme will be funded from a combination of City Deal grant, capital receipts and unsupported borrowing.

Swansea Central City Deal Phase 2 Digital Village scheme is complete. The current approved financing for this scheme at a total of £45.217m is funded from a combination of City Deal grant, unsupported borrowing and contributions.

5.15 It should be noted that efforts to increase and maximize grants, contributions and capital receipts in order to minimize borrowing requirements are pursued throughout the year. Included within the programme are a number of schemes which are self-financing. Indeed, there is a clear strategy for the Council to maximize external investment in any proposals and to seek to target its own investment into areas which offer a return commensurate with or greater than financing costs in order to minimise the revenue impact of any additional borrowing requirements. In the absence of such a strategy then it has to be realised that any capital expenditure that leads to an overall net increase in borrowing costs brings with it the potential to impact on an already challenging revenue budget scenario going forward.

5.16 It is recognised that a forecast capital financing requirement of £162.589m remains significant. The revenue implications of this are identified in the revenue budget and medium term financial plan on this agenda. The above programme is affordable and sustainable throughout the lifetime of the medium term financial plan subject to the risks highlighted below.

5.17 It should be noted that the Council makes an annual budget provision to repay debt through what is known as the Minimum Revenue Provision (MRP). The MRP policy was revised and approved by Council on Dec 20th 2018, mitigating the impact of revenue provision in the earlier years, aligning the repayment of the debt with the lifetime of the asset. It was recognised there would be short term 'savings' which would reverse in later years, therefore the establishments of the capital equalization reserve was approved by Council to mitigate and forward plan for the same. Advantage was taken of the low interest rate and volatility in the market to externalise some of its borrowing requirement in 2018/19, by borrowing £90m, although the overall strategy is to mitigate the impact of interest charges by utilising internal resources to meet Cashflow demands but opportunities to take advantage of long-term value shall be taken when deemed appropriate. Notwithstanding this and noting the already emerging risks to the upside to long term interest rates and the significant capital financing identified by this report, it was determined that in line with good Treasury Management practice and being mindful of interest rate movements and cashflow requirements, that during the financial year 2021/22, a further £120m of PWLB borrowing was undertaken. This borrowing was taken in 3 separate tranches at an average of 1.94% during the year. (This is the cheapest borrowing ever undertaken by this Council). It should be noted that the decision to defer this funding from 2018/19 to 2021/22 was explicit, whilst the PWLB premium was in place and consultation to changes was ongoing. This deferral has therefore avoided the 1% premium imposed on PWLB borrowing during that time.

5.18 Noting the programmed profile of grant payments in respect of The Swansea Bay City Deal Financing, it has been determined prudent to utilise the already established Capital Equalisation Reserve, with which to mitigate and smooth the timing differences between funding and capital spend during the early years of the programme

5.19 The Capital programme as outlined in this report reflects known planned expenditure and financing as at the date of the report. Future discretionary projects and schemes shall only be incorporated if they are within the current planning envelope assumption of up to £50m of borrowing (already assumed and now also already fully deployed), are self-financing or the associated additional financing costs can be supported from likely future revenue budgets affordably and sustainably. The costs of financing the same are forecast to be materially higher than the recent past noting the higher gilt yield environment, which in turn may limit the capital secured for any policy choice over the balance between revenue and capital priorities. Policy choices will also continue to be made on the degree of public subsidy that any individual schemes may require having due regard to our obligations to lead and shape regeneration and pump prime wider investment activity.

HRA

5.20 In March 2024 an exercise was undertaken to understand the long-term capital investment needed to fully meet the standard. It was estimated the Council would require £900m to meet all aspects of the standard. Because this is unaffordable and the available capital investment is insufficient, the programme presented in the HRA Capital Budget & Programme Report 2024/25 – 2028/29 on this agenda, is prioritised based on the following:

- Priority 1 – Contractual Obligation – where the Council is required to meet programmes of work where existing contractual agreements are in place.
- Priority 2 – WHQS 2008 Legacy Programme – Investment to refurbish properties (such as the high-rise blocks) defined as 'Acceptable Fails' by the original Standard on basis of timing of remedy, to meet condition

compliance.

- Priority 3 – Maintain WHQS Condition Compliance – Existing compliant stock receive investment for planned maintenance programmes to maintain compliance as building components and elements fail, to maintain current levels of compliance.
- Priority 4 – Maintain More Homes Programme – Protect the previously approved investment by Council in order to continue to increase housing supply to counter impact of increasing homelessness.
- Priority 5 - WHQS2023 Decarbonisation and Additional Duties – Should all available HRA investment be used on priority groups 1-4, funding of decarbonisation and other duties made only when direct additional grant specifically for decarbonisation is made available by Welsh Government.

5.21 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.

5.22 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	●	

Other public sector issued Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

5.23 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.

5.24 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 pre agreed interest rate of 4.25% and remitted this total amount to Welsh Government on April 2nd 2015.

5.25 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 remain relatively high into 2024/25 and are projected to remain so for 25/26. 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 than 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, whilst monitoring opportunities to borrow affordably long term.

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 medium/long term, however the scale of the capital programme and maturing financing dictates that the authority shall need to enter the funding market in the medium term.

6.4 <u>Policy on borrowing in advance of need</u>
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 short/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 currently being appraised in respect of a market loan 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 February 2025

8.1.4 It is anticipated that the Council will continue to hold internally managed sums during 2025/26 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 <u>Interest Rate Outlook</u>:
The long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

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

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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 2024/25 is attached at Appendix H,
- and the Annual Report 2023/24 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. technical press coverage re. 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 - MUFG 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/Deputy 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 /Deputy S 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 consult 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 is to make a 2% MRP charge for the Housing Revenue Account share of the Capital Financing Requirement (CFR) until 2020/21, when the lifetime of asset (default 40years unless informed otherwise) 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) as required by statute

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 2024/25 Appendix I – Treasury Management Annual Report 2023/24

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	These are the net costs of financing capital i.e.

(see financing costs also)	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	A Government agency which provides loans to

(PWLB)	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	Counterparty Credit Risk The risk that a counterparty defaults on its obligations. Inflation Risk The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure. Interest Rate Risk The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances. Liquidity Risk The risk that cash will not be available when it is needed. Operational Risk 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. Refinancing Risk 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.

APPENDIX B

MUFG TREASURY ADVISORS' VIEW ON THE ECONOMIC BACKGROUND

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August.
- Core CPI inflation increasing from 3.3% in July to 3.6% in August.
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting.
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

Reflecting on the 30 October Budget, the central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

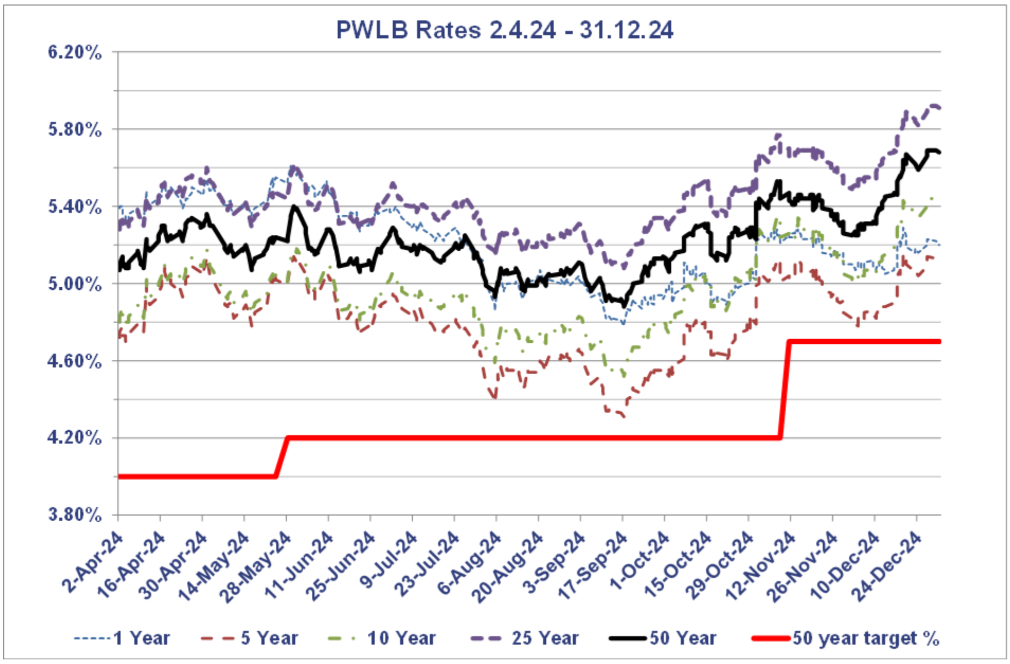
If one focusses on borrowing, a term likely to be heard throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10-year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 thresholds on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.



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	fund managers and In-house 12 months 12 months 6 months	£30M with each counterparty/ per agreement

	Green No Colour	100 days Not for use	
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 **Non-Specified Investments:**

A maximum of 35% will be held in aggregate of Council managed funds 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	Long-term AA-	fund managers/in	10 years	per agreement

building societies	Blue Orange	-house	12 months 12 months	/£25M with 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 do 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

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the MUFG Corporate Markets creditworthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- **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 (equivalent to 40 year useful life) going forwards from that date for all historical supported borrowing.

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 of 6 February 2025
(subject to change)

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

APPENDIX H

INTERIM YEAR TREASURY MANAGEMENT REPORT 2024/25

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 2024/25
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2024/25
- A review of the Council's borrowing strategy for 2024/25
- A review of any debt rescheduling undertaken during 2024/25

- A review of compliance with Treasury and Prudential Limits for 2024/25

2 Cashflow Management

2.1 As previously reported, the Authority continues to lead in the distribution of the various Welsh Government grant aid in the wake of the pandemic and the ongoing 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.

3.0 **PWLB RATES**. The forecast on available at midyear sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

4 Review of the Treasury Management Strategy Statement and Investment Strategy

4.1 The Treasury Management Strategy Statement for 2024/25 was approved by Council in March 2024. 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
- and then only
- 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 2024/25.No borrowing has been undertaken in 2024/25 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 volatile inflationary environment. In this context, it is considered that the strategy approved in Mar 20234is still appropriate in the current economic climate and has been reviewed whilst considering and formulating the strategy for 2025/26 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:

c. *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 2024/25

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 of 30th Sep 2024, is shown in Appendix 3. To 31st Sep 2024, the portfolio has returned 5.42 % against a SONIA benchmark rate of 5.39%

6 Review of Borrowing 2024/25

6.1 The latest 3-year projected capital financing requirement (CFR) applicable for 2024/25 is £711.611m. The total current outstanding borrowing is now £671.750m. No borrowing has been undertaken in the financial year 2024/25 to date.

7 Review of Debt Rescheduling 2024/25

7.1 Debt rescheduling opportunities are periodically evaluated in this unhelpful environment and current structure of interest rates of the debt portfolio. A live opportunity is currently being appraised to reschedule one of the market loans before end of FY 2024/25.

8 Review of Compliance with Treasury & Prudential Limits 2024/25

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	**2023/24**	**2024/25**
	Outturn	**Revised Estimate**
	£'000	**£'000**
Capital Expenditure		
GF	133,119	137,951
HRA	37,856	53,542
TOTAL	**170,975**	**191,493**
Ratio of financing costs to net revenue stream	**%**	**%**
GF	6.19	5.79
HRA	14.36	12.56
Capital Financing Requirement	**£'000**	**£'000**
GF	489,295	546,762
HRA	153,599	163,832
TOTAL	642,894	710,594

Treasury Management Prudential Indicators		
	2023/24	**2024/25**
	Outturn	**Revised Estimate**
	£'000 or %	**£'000 or %**
Authorised limit for external debt	677,297	844,280
Operational boundary for external debt	677,297	784,280
Upper limit for fixed interest rate exposure	88.48%/ £599,297	100%/ £844,280
Upper limit for variable interest rate exposure	11.52%/ £78,000	40%/ £337,712
Upper limit for total principal sums invested for over 364 days	0	50,000

Maturity Structure of Fixed Rate Borrowing in 2024/25			
	Upper Limit	**Lower Limit**	**Actual**
Under 12 months	50%	0%	1
12 months and within 24 months	50%	0%	1
24 months and within 5 years	50%	0%	8
5 years and within 10 years	85%	0%	5
10 years and above	95%	15%	85

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 2024/25

Above figures are as of 30 Sep 2024. None of the above limits/Prudential Indicators have been breached during 2024/25 to date.

Investments as at 30/09/24

Counterparty	**£**
Aberdeen City Council	5,000,000
Blackpool Borough Council	5,000,000
Bournemouth Christchurch and Poole Council	5,000,000
Conwy County Borough Council	5,000,000
Cornwall Council	5,000,000
Debt Management Office	52,200,000
Lloyds Bank	12,600,000
Merthyr Tydfil County Borough Council	5,000,000
SMBC Bank International Plc	10,000,000
Standard Chartered Bank (Sustainable Deposit)	20,000,000
	129,800,000

Treasury Management Annual Report 2023/24

Executive Summary

1.1 There is an in year capital financing requirement of ££643.9m for 2023/24. However as previously reported, the S 151 Officer undertook £120m of PWLB borrowing in 2020/21 at historically low interest rates fulfilling the CFR requirements in the short term, therefore no borrowing was undertaken in 2023/24

1.2 The average interest rate on outstanding Council borrowing (not incl. HRA Subsidy Buyout debt) remaining at 3.56% in 2023/24 (3.56% 2022/23)

1.3 Internally Managed investments achieved a return of 5.01%. This outperformed the average SONIA benchmark rate of 4.96% returning £12.46m 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 2023 and updated in March 2024 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2023/24 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 2023/24 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 2023		**31 March 2024**	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
Long Term Debt				
PWLB - fixed rate	487,500	3.67	487,500	3.67
Money Market (LOBO)	98,000	4.10	78,000	4.10
Welsh Gov	33,414	-	36,348	0
Short Term Debt				
Other	,1915	3.20	1,869	4.04
Average rate		3.56		3.56
HRA Buyout				
PWLB – fixed rate	73,580	4.25	73,580	4.25

Total Debt	694,409	677,297		

3.2 The average external (non HRA Buyout) debt portfolio interest rate remained at 3.56%. (2022/23 3.56%)

4. Actual Borrowing 2023/24

4.1 The Treasury Management Strategy 2023/24 originally agreed by Council in March 2023 and updated in March 2024 projected a total capital financing requirement of £643m by the end of 2023/24. 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, the Authority having largely fulfilled its historic and short/medium term CFR requirement in prior years at historic low levels, no new borrowing was undertaken in 2023/24

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 2023/24 under the Prudential Code. The outturn for the prudential indicators is shown in Appendix J.

6. Actual Investments 2023/24

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 2023	Balance 31 March 2024	Average Value 2023/24	Interest	Rate of Return	Benchmark SONIA
£’000 202,250	£’000 162,700	£’000 248,882	£’000 12,462	% 5.01	% 4.96

6.2 The interest achieved on internally managed investments was £12.462m or 5.01%. This return outperformed the rising benchmark SONIA rate by 0.05%.

6.3 As a further measure to mitigate and control risk following the global 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 rescheduling opportunities arose in 2023/24 which would be economically beneficial to the Authority. However 2 market loans (2x £10m) where the lender exercised their options were repaid at par by the Council during the year.

Prudential & Treasury Management Indicators 2023/24

Prudential Indicators	**2022/23**	**2023/24**	**2023/24**
	Actual	**Budget**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
GF	121,068	142,697	133,119
HRA	40,169	35,593	37,856
TOTAL	161,237	178,290	170,975
Ratio of financing costs to net revenue stream			
GF	6.41	6.00	6.19
HRA	15.00	13.6	14.36
Capital Financing Requirement			
GF	470,834	531,329	489,295
HRA	157,248	153,590	153,599
TOTAL	628,082	684,919	642,894

Treasury Management Indicators			
	2022/23	**2023/24**	**2023/24**
	Actual	**Budget**	**Actual**
	£'000	**£'000 or %**	**£'000**
Authorised limit for external debt	828,829	843,850	677,297
Operational boundary for external debt	768,829	783,850	677,297
Upper limit for fixed interest rate exposure	100%/ £828,829	100%/ £843,850	599,297
Upper limit for variable interest rate	40%/	40%/	78,000

exposure	£98,000	£337,540	
Upper limit for total principal sums invested for over 364 days	0	40,000	0

Maturity Structure of Fixed Rate Borrowing in 2023/24			
	Upper Limit %	**Lower Limit %**	**Actual %**
Under 12 months	60	0	1
12 months and within 24 months	60	0	1
24 months and within 5 years	60	0	6
5 years and within 10 years	90	0	6
10 years and above	95	15	86

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 2023/24

are shown as at balance sheet date 31st March 2024, however it can be reported that none of the above limits were breached during 2023/24.

Investments as at 31/03/24

Counterparty	**£**
Bedford Borough Council	5,000,000
Blackpool Borough Council	10,000,000
Bridgend County Borough Council	5,000,000
Cheshire East Council	5,000,000
Crawley Borough Council	5,000,000
Debt Management Office	27,700,000
Flintshire Council	5,000,000
Halton Borough Council	5,000,000
Kent Police and Crime Commissioner	5,000,000
Lloyds Bank	28,000,000
London Borough of Waltham Forest	10,000,000
Merthyr Tydfil County Borough Council	12,000,000
Salford City Council	5,000,000
SMBC Bank International Plc	10,000,000

Surrey County Council	5,000,000
Swindon Borough Council	5,000,000
Telford & Wrekin Council	5,000,000
Wirral Borough Council	10,000,000
	162,700,000