

Capital Strategy and Treasury Management Strategy 2024-29



Including Minimum Revenue Provision Policy
Statement and Annual Investment Strategy

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Introduction

- 1.1 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and Council's Corporate and Strategic Equality Plan. The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.
- 1.2 This strategy document provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, an overview of how the associated risk is managed and the implications for future financial sustainability.
- 1.3 It sets out an integrated plan for the future management of the Council's assets and its capital programme. It is a key document running alongside the Corporate and Strategic Equality Plan and the Medium-Term Financial Strategy (MTFS) and will provide the framework to facilitate a seamless interface between business planning and the management of assets and capital resources. This will ensure that the provision of resources and future investment are prioritised and ensures the effective and affordable management of the Council's assets.
- 1.4 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a **Capital Strategy** report which will provide the following: -
 - a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

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

- 1.5 This Strategy document provides both the **Capital Strategy** and the **Treasury Management Strategy** as they are inherently linked through the activities they undertake. The document sets out the Capital Programme over a five year period from 2024/25 to 2028/29 and the funding approach through treasury management activities.
- 1.6 The Authority is currently required to receive and approve, as a minimum, three main **Treasury Management** reports each year, which incorporate a variety of policies, estimates and actuals.
 - a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
 - the capital plans, (including prudential indicators)
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed)
 - b. **Quarterly management reports** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. These reports are prepared for the **Governance and Audit Committee** and **Cabinet**.
 - c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations

compared to the estimates within the strategy.

1.7 **Scrutiny** - The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the **Governance and Audit Committee**.

1.8 **Treasury Management Strategy for 2024/29**

The strategy for 2024/29 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Authority
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

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

1.10 **Training**

1.11 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

1.12 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

1.13 The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

1.14 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

1.15 In further support of the revised training requirements, CIPFA’s Better Governance Forum and

Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

1.16 Members are required to attend two sessions each year provided by the Council's Treasury Advisors Link Group, Link Treasury Services Limited, the sessions for 2023/24 were held in October 2023 and January 2024. A further two sessions will be arranged for 2024/25 and further training will be arranged as required.

1.17 The training needs of treasury management officers are periodically reviewed.

1.18 A formal record of the training received by officers central to the Treasury function will be maintained by the Capital & Financial Planning Accountant. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by Democratic Services.

1.19 Treasury Management Consultants

1.20 The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

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

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

1.23 Capital Strategy

1.24 The key aims of the Capital Strategy are to:

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities.
- Clarity about how the Council identifies and prioritises capital requirements and proposals arising from various strategies including the Corporate and Strategic Equality Plan, Service Improvement Plans, and other corporate strategies, and how they will be managed within the limited capital resources available.
- Challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and economically sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.
- Ensure there is a full understanding of the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.25 It is a requirement that the capital strategy demonstrates that the Local Authority takes both capital and investments decisions in line with service objectives. The capital strategy shows that the key drivers of the Council's Capital plans are captured through various plans across the authority. These include

- Highways Asset Management Plan (HAMP)
- Welsh Housing Quality Standard Plan (WHQS)
- Strategic Asset Management Plan (including Asset Review, paragraph 2.18)
- Schools Transformation Plan
- Health and Care Strategy
- Service Integrated Business Plans
- Digital Powys

1.26 Treasury Management

1.27 The Treasury Management Strategy and Annual Investment Strategy report is a requirement of the CIPFA Code of Practice on Treasury Management and a requirement under the Local Government Act 2003. It has regard to the Guidance on Local Government Investments issued by the Welsh Government which requires the Treasury Management Strategy and Annual Investment Strategy to be approved by Full Council.

CIPFA defines treasury management as:

'The management of the local authority'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.'

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

1.29 A key function of the treasury management service is arranging the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.30 The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.31 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these

activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities. This authority has engaged in only minimal commercial investments and has no (or immaterial) non-treasury investments.

Capital Strategy

1.32 Background

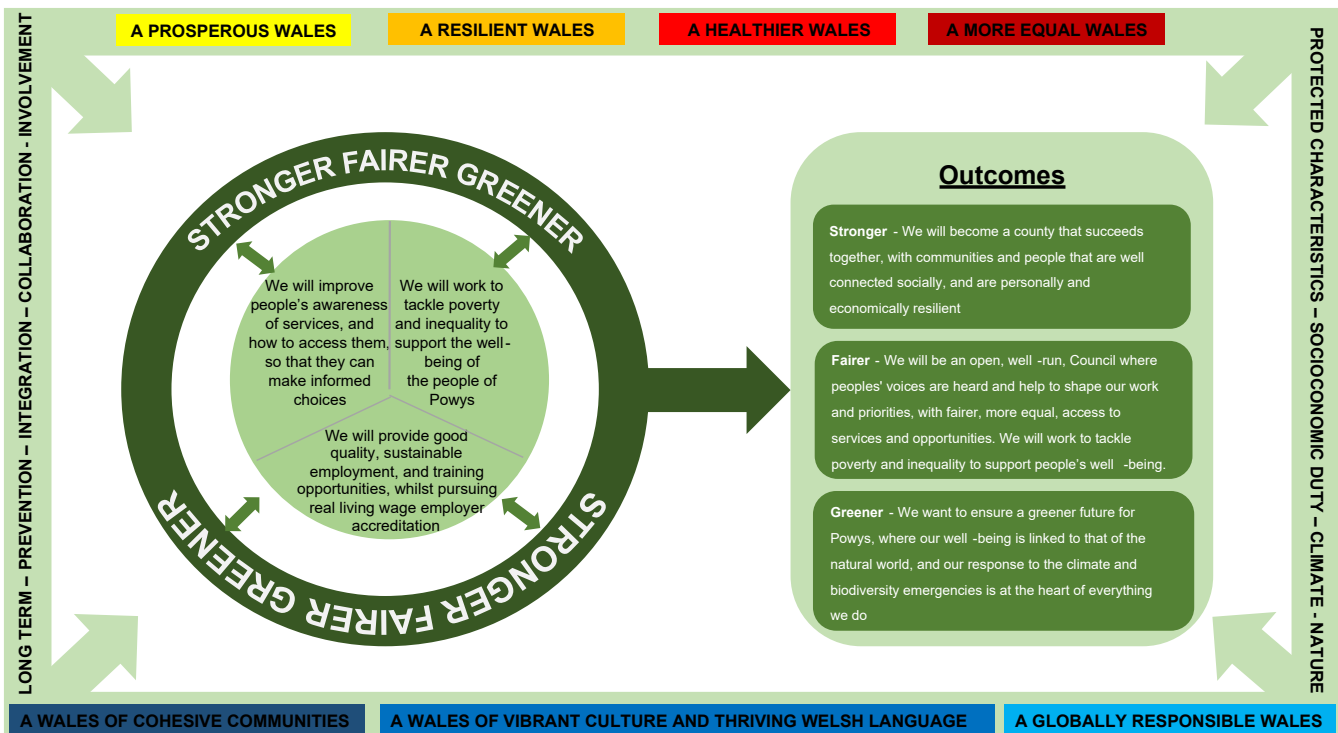
1.33 Part 1, Section 3 of the Local Government Finance Act 2003 requires that the Authority shall determine and keep under review how much it can afford to borrow. The Act is supported by the Prudential Framework for local authority capital investment and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code). The CIPFA Prudential Code was revised in December 2017. The revised Code introduced a new requirement that all authorities produce a capital strategy, which sets out the long-term context in which capital expenditure and investment decisions are made.

1.34 The Capital Strategy and Treasury Management Strategy (TMS) are closely linked, and both are revised annually. The Capital Strategy defines the Council's spending and the TMS sets out how it will be funded and its impact on the overall financial standing of the Council.

1.35 Aims, Priorities and Principles

1.36 The purpose of this strategy is to set out the objectives, principles and governance framework to ensure that the Authority takes capital expenditure and investment decisions in line with service objectives that underpin the delivery of the Corporate and Strategic Equality Plan. The Council's Vision sets out the key priorities and objectives of the Council.

1.37 The Councils' priorities are set out below.



1.38 The priorities align to the 5 ways of working and the 7 Well-being goals of The Well-being of Future Generations (Wales) Act (2015) and meet statutory requirements and legislative changes are defined. In finding sustainable solutions for service delivery objectives broadly align to any one of the following requirements:

- Objectives to redesign services to deliver them more efficiently, effectively or in an alternative manner.
- Objectives that identify key delivery partnerships or outsourcing opportunities
- Objectives that contribute positively to support Climate Change

- Objectives that realise opportunities to stop delivering services because requirements or priorities have changed, allowing the planned release of resources.
- Objectives that realise opportunities to generate additional income.

It is essential that the Council priorities are funded through either revenue or capital to ensure that they can be delivered over the short to medium term.

1.39 Programme Overview

1.40 The Capital Programme is a key enabler to deliver the Council's ambition. Broadly the programme covers three areas of expenditure:

- A core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day-to-day activities that will ensure the Council meets its statutory requirements.
- A programme to achieve a Sustainable and well maintained asset base
- A programme that prioritises investment to support key Council priorities and delivery of corporate objectives in line with Sustainable Powys

1.41 The Capital Strategy for 2024/25 and future years will need further development, the Capital Programme will be reviewed and reconsidered to ensure that the revenue implications of capital expenditure are accurately reflected in the FRM and that the capital expenditure plans of the council remain **affordable, prudent** and **sustainable**. To support this there are a number of key considerations:

- Managing capital financing costs
- Maximising grant funding and other income sources
- Sustainable and well maintained asset base
- Prioritising investment to support key Council priorities and delivery of corporate objectives in line with Sustainable Powys
- undertaken only where there is a statutory requirement on the Council to undertake such works to address identified corporate risks.
- Delivery of approved transformation projects which contribute to cost reductions or improvement
- Release assets to deliver capital receipts
- Decarbonisation and climate risk
- Demonstrate Value for Money

1.42 Schemes already included in the indicative programme will be reviewed in line with these principles. Schemes that are not time critical may be deferred to later in the programme to focus internal capacity on delivery of priority schemes, allowing the impact of economic uncertainty to be clearer, and to spread the timing of any borrowing requirement and treasury management risk.

Capital Investment across Services

1.43 The Council has developed its capital strategy which sets out a five year long-term plan and demonstrates that the capital / investment decisions are taken in line with priorities and considers both risk/reward and impact; as well as properly taking account of stewardship, value for money, prudence, sustainability and affordability.

1.44 The Council will continue to invest in services that underpin the priorities set out above, the key themes have clear service projects:

Residents and the Community - We will support our Residents and Communities.

- **Housing** -The Council will continue to maintain, for all the homes it owns, the Welsh Housing Quality Standard (WHQS) with an ongoing capital programme in part funded through Welsh Government Funding and Borrowing. A revised WHQS is to be introduced by the Welsh Government in April 2024, which will increase the specification requirements for all social landlords. The most immediate change will be the provision of floor coverings throughout all properties prior to letting to new tenants. The cost of this element of the new WHQS is currently being assessed but initial estimates suggest a cost of £500,000 per annum. The Housing Revenue Account Thirty Year Business Plan demonstrates an affordable capital strategy alongside delivering the day-to-day landlord service and has key objectives linked to the Council's Corporate and Strategic Equality Plan.

The Council has completed the construction and letting of 18 new homes in 2023-2024, the acquisition and letting of four homes under a Partnership Package Deal and is on course to complete the purchase of a further 18 existing homes. A total of seventy-two homes are now subject to a tendering exercise, across three sites, for development to start in 2024-2025. A further 195 additional homes are under active consideration for future development (dependent upon site acquisitions, viability assessments and resolution of the phosphates issues affecting development of all types).

Subject to revenue funding being secured, work will begin in 2024-2025 on the development of two Instant Access 24/7 Triage Centres to improve the service to those who find themselves to be homeless, alongside two Interim 24/7 Accommodation Centres for those who need help and support prior to moving into a home of their own, to reduce instances of repeat homelessness. Housing Services is looking for suitable locations for twenty Modular Interim Accommodation Units, to reduce the need to use high-cost bed-and-breakfast style accommodation as temporary housing for homeless households.

The Council will continue to fund a major programme of Disabled Facilities Grants enabled works and improvements to homes to improve the quality of life for people who need help to live as independently as possible. In addition, Housing Services will continue to support energy efficiency and bringing privately owned empty homes back into use through the SWAS (Safe Warm & Secure), Landlord Loans and the ZILF Co2i loan schemes. The Council will, using ECO4 and ORP3 funding, improve the energy efficiency of at least 74 Council owned homes that currently have EPC ratings of E, F or G. An application has been submitted to the Welsh Government as part of the Empty Homes Grant scheme, which will be in addition to the Council's interest free loans programme for owners of privately owned properties that need works to make suitable for use as homes. Work on bringing into use empty properties as homes is now well underway, with a dedicated Empty Property Officer in place, funded by the Council Tax Premium.

- **Leisure Centres** - The Leisure facility provision contributes to a wide-ranging preventative agenda throughout the county, supporting the Public Health Wales Long Term Strategy (2018-30) and delivering health interventions such as the NERS program (National Exercise Referral Scheme) in collaboration with Powys Teaching Health Board and General Practices within Powys. Since 2019 the Council has approved a five-year programme which has already enabled significant and essential infrastructure replacement of plant, fixtures, end-of-life equipment, materials, playing surfaces and decoration. The Capital commitment supports the Council's 'landlord' responsibilities as part of the leisure contract but also ensures that the buildings are fit for purpose, compliant, attractive and provide a positive customer experience. Leisure Services in Powys not only support the overall well-being of our 'residents and communities' and now more than ever, contribute to the 'health & care' agendas, providing early intervention and prevention programmes to help reduce the burden on health services. Also, as a collaborative partner to the School's Transformation Programme, enabling learning and development through specific opportunities that the service provides or facilitates. The requirement for a sustainable long term capital investment strategy will be a key component and outcome of the Leisure Services Review, in conjunction with future place-based plans.

- **Waste Strategy** - Powys County Council faces a stringent Welsh Government (WG) statutory

recycling target of 64% for 2019/20 through to 70% for 2024/25. There is also a non-statutory WG target to reduce landfill to 10% by 2019/20 reducing to 5% by 2024/25. This has required a step change in the way all local authorities approach waste and recycling. The continued capital investment in the Waste and Recycling service will ensure that the Council is able to meet the targets whilst obtaining maximum value from the service. A network of assets under the Council's control allows flexibility to adapt to any changing requirements within the industry and Government policy and legislation. Some of these schemes are linked to efficiency savings and service improvements in future years.

Health and Care – We will lead the way in providing effective, integrated Health and Care in a rural environment

- **Social Care** - The capital programme focuses on supporting those who wish to remain in their own home rather than residential care and supports the integrated Health and Care Strategy for Powys. This strategy acknowledges that people in Powys live longer and healthier lives than elsewhere in Wales and that Powys is a place aspiring to help improve the wellbeing of all people. Capital funding mainly focus on accommodation options, including supporting the building and redevelopment of facilities to increase the stock of supported living and extra care housing in collaboration with Powys Teaching Health Board and local Registered Social Landlords. There are also capital funding requirements for the 13 Powys owned care homes.

- **Children's Services** -

In order to ensure a sufficient supply of appropriate, safe placements for children in care, as close to home as possible, investment is mostly focused upon accommodation development for a range of placements in County to support the complex needs of young people who remain under the local authority's care. Funding is being utilised to develop accommodation within County for children aged 16 years. Welsh Government have been particularly supportive in offering investment to progress such developments, as mirrored in current Ministerial direction in line with the not for profit care agenda for children in care.

Work to identify possible locations and opportunities to develop additional family centres across Powys continues with possible joint working with other partners and agencies.

- **Assistive Technology** - has a key role to play in the modernisation of health and social care. With ever increasing technological advances, it offers a range of possibilities for greater choice, not only of how people can access the support they need, but also where and when they access support. In doing so, assistive technology enables people to take greater control, and to live independently for longer by preventing hospital admissions and premature moves to residential care. Enabling access to better accommodation options is essential in order to support independent living and reduce demand for other types of care.

Learning and Skills – We will strengthen learning and skills.

- **Transforming Education Programme** - The Council has developed a ten-year Strategy to Transform Education in Powys 2020-30 with the implementation of a major capital investment programme that will ensure that schools in Powys have inspiring, environmentally sustainable buildings that can provide opportunities for wider community activity, including where possible childcare services, early years, Additional Learning Needs (ALN), multi-agency support and community and leisure facilities. This will also include developing a reliable, high quality digital infrastructure. The Council is investing £123m over the next five years in its schools through the Welsh Government's Sustainable Communities For Learning Programme (SCLP). The SCLP has a 65% capital intervention rate for mainstream schools, 75% for special schools and it also offers a new and innovative funding route where the intervention rate is 85% for the Mutual Investment Model. Welsh Government has recently confirmed that the SCLP is now a rolling programme, rather than being time-bound, and is expecting local authorities to submit new Strategic Outline Programmes to support new school projects once they are ready to do so. Welsh Government has also issued a directive that all projects need to achieve Carbon Zero in Operation, with additional funding available to support this until 2026. The Council will develop its strategies to ensure

maximisation of the potential investment opportunities that may be available via WG funding.

However, to deliver the full Transforming Education Programme in Powys, significant funding sources above what is currently included in the current Capital Programme will be required. That said, the cost of transformation over the lifetime of the schools' assets is cheaper than the status quo in the majority of localities.

Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the Schools Service's Asset Management Plan.

The Economy – We will develop a vibrant economy.

- **Highways and Environment** - The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. A strategic approach has been used to develop the Highways Asset Management Plan (HAMP) in identifying and allocating resources for the management, operation, preservation and enhancement of the highway infrastructure to meet the needs of current and future customers. Current gross replacement cost of these assets is estimated at £4.4bn.

The highway network includes public rights of way, which are a major attraction to the county for visitors. There are 1,700 recorded bridge structures on the public rights of way network; most are Council assets. Several major bridges (over £100,000 each) need to be replaced within the next 5 years due to age. Additional grant funding is being sought to replace five of these major bridges.

In addition, storm damage with increased rates of riverside erosion and rotting of timber is affecting many small to medium bridges (up to £50,000 each). Over the 2020-21 and 2021-22 financial years, eight of these medium bridges have been replaced using Access Improvement Grant capital funding. A further four are programmed for replacement in 2022-25 under the same grant. Where the locations are logistically challenging to reach or particularly wet with an increased risk of rot, recycled glass reinforced plastic bridges have been installed with a design life of over 30 years and reduced maintenance requirements. Ongoing inspection is required to monitor rates of deterioration in timber bridges and performance of plastic structures.

A county wide inventory of all bridges on the rights of way network is being developed, to record bridge condition and forward plan for their replacement. Proactive inspection of small bridges is under way with proactive cleaning to reduce the rate of rot in timber structures. Previously, this has been reactive.

Outdoor recreation assets are also a significant tourist attraction and can provide valuable opportunities to maintain and enhance biodiversity. There are two remaining building assets under management by the Service; investment is needed in one of them, to enable ongoing lease arrangements.

Work has been carried out to address the designation of Llandrindod Lake as a reservoir; this structure will require ongoing monitoring. The Llandrindod Rock Park woodland has several bridge structures, not on public paths but on publicly accessible land. The largest of these has just been replaced using grant funding, following a period of closure. Again, steel beams have been included in the design to increase longevity, but timber parts will eventually require replacement.

- **Property** - The vision is to ensure that through the Corporate Landlord initiative, the Council's assets are appropriately managed to provide safe, efficient, sustainable properties in the right locations to support the delivery of services and the achievement of key priorities. The Strategic Asset Board and Asset Management Plans are the mechanisms in place to help deliver these priorities, which will ensure close working and collaboration across all service areas and partner organisations such as Neath Port Talbot College / Powys Teaching Health Board (PTHB). The Property team will be supported in this crucial work with investment provided to procure a new Property Management database which will provide a single point of reference for all aspects of the Council's operational and investment estate. A property disposals programme is being developed.
- **Regeneration, Property and Development** - The Council needs to intervene where the private sector is not able (for economic reasons) to create or facilitate investment in business units in order to keep and attract business to the County. Abermule business park is one such scheme that sees

the Authority developing a former Welsh Government site which otherwise would not have been developed in the short to medium term. Capital investment will also form an important part of supporting the regeneration and viability of town centres complementing the Welsh Government's Transforming Towns funding programme. An initial annual allocation of £2 million starting in 2024-25 has been included as the Council's contribution towards the Mid Wales Growth Deal. As the investment plans for the deal develop the funding will be released to the relevant projects on completion of the relevant governance and approval processes. Major infrastructure project funding has been secured from Welsh Government and these require match funding to deliver the ambition for economic growth from this strategic investment. Both National and Welsh Government are providing a capital injection in the south of the county for a purpose-built, modern railway infrastructure and rolling stock testing facility. This is expected to form an important addition to the UK rail industry and would be the only test facility in the UK that includes circuits tracks, would offer significantly more efficient testing than shunting facilities, which require trains to change direction of travel at the end of track.

- **County Farms** - It is essential that the Council manages its agricultural estate prudently, efficiently, and professionally. Effective management of County Farms estate will enable the continued opportunities already enjoyed by current tenant farmers and maintain an income stream. The financial demands of the Estate need to be evaluated against the competing demands across the council whilst noting the estate produces an annual surplus in its trading account. The opportunity for capital receipts will continue to arise as reviews are undertaken at each tenant departure from the Estate. An Invest to Save initiative is being developed which will see investments made to the Farm Estate which should create opportunities for capital receipts and reduced revenue expenditure, for example barn conversions and subsequent sales.
- **Information Technology (IT)** - The service engages with change programmes so that investment and resource meets identified Council priorities. In respect of infrastructure, IT will seek to invest in up-to-date cloud-based technologies including 'Azure' cloud technologies, core infrastructure and improved telephony and mobile systems, Web and share-point and improved wireless as well as further enabling our staff to work in an agile manner. Cyber resilience is also a key programme, since 2017 an active Cyber Security improvement plan has been in place which details improvements required to maintain our Cyber Security resilience and to maintain standards and accreditations such as Cyber Essentials Plus and Public Service Network Accreditation. In order to maintain the council's resilience and standards, this investment and programme of work is key. This includes investment in tools to detect and prevent malicious activity, tools, processes and resources to maintain systems to prevent vulnerabilities from exploitation, systems to enable us to share and collaborate information digitally and securely without risk of unintended exposure and ultimately damage or complete loss of any of the council's data or systems. The funding also ensures that the Council has an effective device refresh programme in place, ensuring that staff have the necessary devices to undertake their work effectively.

Investment in Regenerative Commercial Activity

- 1.45 The commercial activity undertaken in the Council relates to holding properties that are utilised by tenants, these include livestock markets, caravan park, restaurant and office space. These are held primarily for their regenerative benefits to the local economy.
- 1.46 Around £240,000 in rental income is received each year.
- 1.47 The Council has registered a trading company (currently dormant) that may become the vehicle that supports greater commercial activity, but any investment must evidence the following criteria:
 - Support the strategic community objectives of the council.
 - Have a balanced investment approach.
 - Improve covenant strength.
 - Drive income generation and maintain yield.

- 1.48 To ensure that the council is able to benefit from the lower borrowing rates offered by the Public Works Loans Board (PWLB) the council will currently not consider investing in any commercial property where yield is the primary investment driver.

Funding the Capital Strategy

- 1.49 The cost of funding the capital programme is closely monitored due to the impact on the budget and the ongoing funding constraints of the MTFs. The Council aims to minimise the cost of borrowing on the Financial Resource Model (FRM) and other sources need to be maximized such as capital receipts and external grant funding. Funding capital from borrowing incurs extra costs from interest on the loan and the minimum revenue provision, repayment of the principal. Capital projects are prioritised where they can evidence a reduction in the cost of revenue, such as digital technologies or generate income such as building council dwellings.
- 1.50 The Housing Revenue Account (HRA) supports its own capital expenditure and provision for this is included in the HRA Business Plan. The surplus on the HRA account (excess of rental income over expenditure) is used to fund capital expenditure. This does not impact on the Council Fund. Although the HRA operates separately from the Council Fund, the Council does not borrow separately for Council Fund and HRA expenditure, all borrowing is combined, and the costs apportioned to the two funds based on the level of expenditure funded from borrowing for the two funds. The apportionment method is kept under review to ensure that it remains the most equitable method.

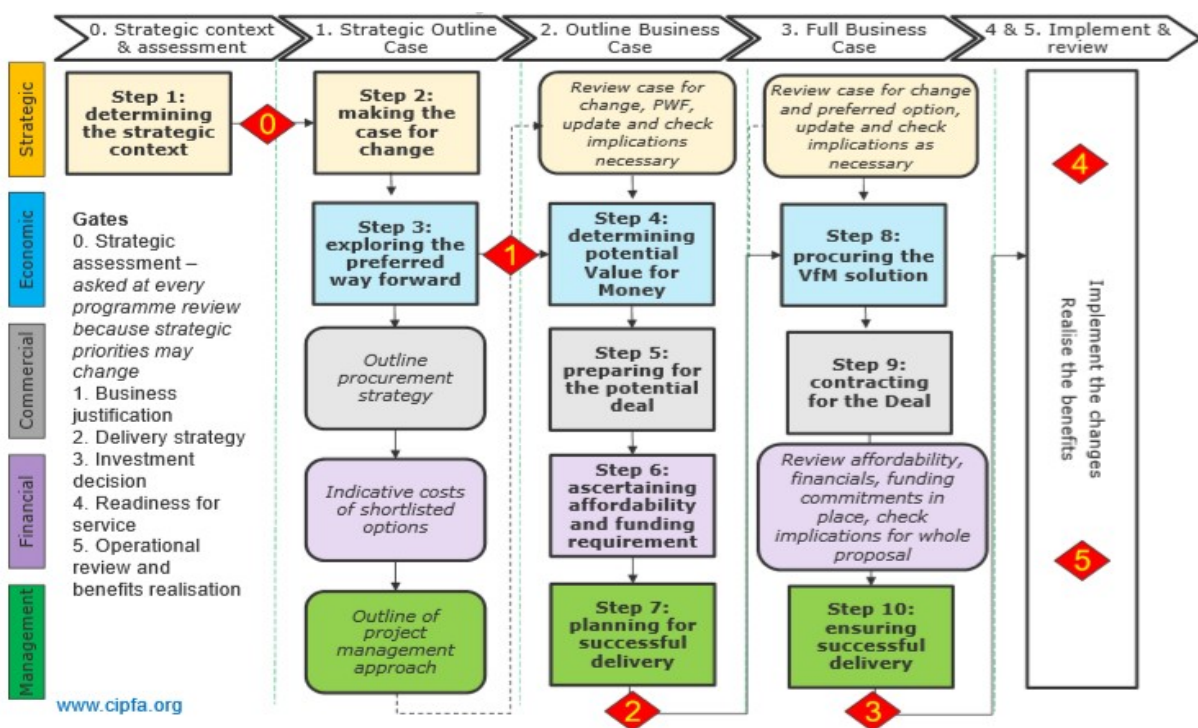
The Capital programme detailed at Appendix A, sets out how the programme is funded, the sources are explained below:

- **General Capital Grant** – This is a sum of money which is provided by the Welsh Government as part of the annual settlement. The Council is free to use the capital grant on any capital project it wishes.
 - **Supported Borrowing** – The Council will borrow from establishments including the Public Works Loans Board (PWLB) to fund the expenditure. The revenue costs arising from the borrowing (Interest Costs and Minimum Revenue Provision) are funded by the Welsh Government through the annual revenue settlement, hence the term “Supported Borrowing”.
 - **Unsupported Borrowing** – Again, the Council borrows the funding but is required to finance the revenue costs from its own resources. Projects funded by means of unsupported borrowing tend to be projects which deliver revenue savings, and these savings contribute to meet the additional revenue costs arising from the borrowing.
 - **Specific Capital Grants** – The Council will be awarded capital grants which partly or fully fund the cost of a project. Capital grants usually come with restrictions surrounding the expenditure which can be funded and by when the expenditure must be incurred.
 - **Revenue Contribution** – Services can contribute from their revenue budgets to fund projects. These contributions tend to be as a match funding to a project which is mainly funded from a specific capital grant.
 - **Capital Receipts** – The funds generated from the sale of assets can be used to contribute to the funding of the capital programme. These are usually generated from the sale of surplus assets (normally land or buildings). The Councils’ Capital Receipts Policy is set out in Appendix B.
 - **Reserves** – Funding held in reserve, e.g., unapplied capital receipts, can be used to support the capital programme. Specific reserves can also be built up and set aside for this purpose.
- 1.51 An extensive review of the Councils assets is being undertaken, this will establish the current condition of all assets, the ongoing maintenance costs and any investment requirements, how the assets contribute to the delivery of services and supports the Corporate Plan. An enhanced focus is needed on disposal, relinquishment and alternative use, and working with partners to maximise opportunities for co-location of services. Once this is complete, any future capital investment together with the proceeds from the sale of surplus assets will be included in the capital programme.

1.52 Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements or reduce maintenance liabilities and the carbon output of the Council. To support this approach a target of at least £10m of capital receipts generated year on year is set to support our Capital Strategy. The release of assets will be delivered through the review and rationalisation of our assets as we prioritise our property estate to deliver the Sustainable Council for the future.

Governance and Approval Approach

1.53 Welsh Government have adopted the Better Business Case approach to building, reviewing, and agreeing business cases. These principles have been adopted in the Councils' Capital Governance Framework. This approach introduces a more formal regime to follow and ensures consistency and a robust approach to developing each project. The diagram below sets out the gates and steps necessary to develop a capital from proposal through to a successful delivery. There has been an urgency in adopting this new regime to evidence stronger governance based on robust business cases from services.



1.54 The governance of this Capital Strategy follows the same process as the Revenue Budget Setting Process and is presented to the Cabinet as part of the MTFs which is then recommended to full Council for approval.

1.55 The three stages of the Governance Framework are:

- **Stage 1 - The Strategic Outline Case (SOC)**, these must be completed for the new bids and have necessary approval.
- **Stage 2** - Once the SOC is approved, managers will need to complete more detailed work, particularly on the economics of the case, finances (detailed costings) and submit the **Outline Business Case (OBC)** for approval through the Capital Oversight Board, who provide challenge and then make recommendation to EMT / Cabinet to approve.
- **Stage 3** - The **Final Business Case (FBC)** is the final gateway, and the project would move to the

procurement stage. At this point the tender price for the project would be known and the risks quantified. Only when the FBC becomes a live project does the capital budget get allocated, which will improve our budget forecasting and profiling. Any revenue contributions including MRP costs would need to be built into the budget at stage 3.

- For business cases between £75k and £1m a less formal business justification case will be used, being simpler and quicker to develop and proceed to project.
- Each year there is a small bids programme funded by an allocation in the Capital Programme for capital projects under £75k, these are dealt with through the Capital Oversight Board.
- The Council is moving away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval through Cabinet and Council as needed with the necessary prudential indicators updated and presented.

1.56 The Capital Oversight Board is in place which strengthens the Council's oversight, challenge and assurance of the development, management and control of the Capital Programme, including changes in scope, cost, outputs and outcomes.

Capital Programme 2024-2029

1.57 The overall capital programme for the Council in 2024/25 is £102.43 million, which includes £37.57 million for the Housing Revenue Account (HRA). Appendix A provides a full list of all the schemes.

1.58 The General Fund includes schemes which have previously been approved or are in progress and expected to continue into future years. These total £64.86 million. The programme includes a list of schemes that have had their Strategic Outline Case approved and have been progressed to Outline Business case. Providing the economic and financial justification stacks up these schemes are likely to develop to Final Business Case stage and become live projects, totalling £14.39 million. Split over three years, £7.19 million in 2024/25, £4.04 million in 2025/26 and £3.16 million in 2026/27. An initial annual allocation of £2.00 million starting in 2024/25 has been included as the Council's contribution towards the Mid Wales Growth Deal. As the plans for the deal develop, the funding will be released to the relevant projects on completion of the relevant governance and approval processes.

1.59 The need to maintain the highways infrastructure through the HAMP has been highlighted at strategic level as a critical area of the Council's long-term strategy. The programme includes £5.00 million per annum for the HAMP and an additional £1.00 million per annum for street lighting column upgrades.

1.60 An additional £10.00 million has been included in 2027/28 to continue school transformation once the existing Band A and B funding allocations have been fully utilised. This additional funding can only be drawn down once the relevant business case(s) has been approved and it is assumed that Welsh Government will continue to provide grant funding towards 65% of the costs of these schemes.

1.61 Overall additional borrowing requirements are estimated at £47.83 million in 2022/23 which includes £24.93 million for the HRA. However, it is likely that this figure will be less based on previous years slippage on spend and grants that are received in year.

1.62 The capital programme remains within budget for 2024/25 however additional revenue or other sources of funding will need to be identified to fund investment in future years. The impact of the capital programme is set out through the following prudential indicators:

Capital Prudential Indicators

1.63 The Council's capital expenditure plans are the key driver of treasury management activity. The

output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure

- 1.64 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

| £'m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--------------|--------------|---------------|---------------|--------------|--------------|--------------|
| Non-HRA | 59.72 | 64.86 | 68.49 | 61.59 | 36.99 | 28.24 |
| HRA | 20.12 | 37.57 | 40.63 | 21.91 | 19.55 | 26.15 |
| Total | 79.84 | 102.43 | 109.12 | 83.50 | 56.54 | 54.39 |

- 1.65 **Other long-term liabilities** - The financing need set out in the table above excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.
- 1.66 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a requirement to fund through borrowing, this figure is shown as the net financing need.

| £'m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Capital receipts | 4.71 | 4.19 | 6.19 | 4.25 | 4.25 | 2.25 |
| Capital grants | 40.65 | 38.01 | 53.51 | 32.45 | 17.04 | 17.04 |
| Revenue/Reserves | 5.14 | 12.40 | 9.89 | 8.77 | 11.32 | 8.33 |
| Net financing need for the year | 29.34 | 47.83 | 39.53 | 38.03 | 23.93 | 26.77 |

The Council's Borrowing Need (the Capital Financing Requirement)

- 1.67 This is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 1.68 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset life, and so charges the economic consumption of capital assets as they are used.
- 1.69 The greater the CFR the larger the impact will be on the revenue budget, therefore in the long-term there will be a need to keep capital expenditure funded by borrowing at a level below the MRP budget in order to maintain the revenue budget at a sustainable level.
- 1.70 The Council is asked to approve the CFR projections below:

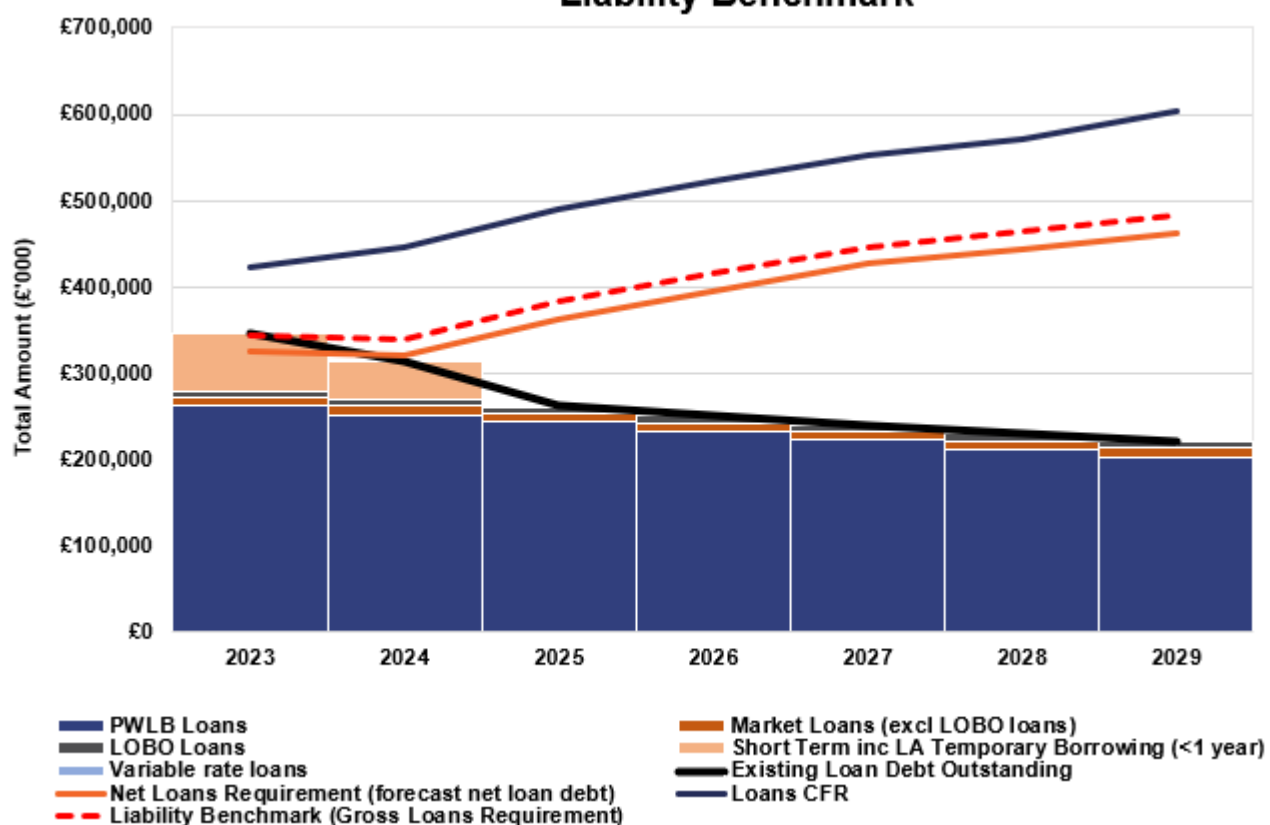
| £'m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----|---------|---------|---------|---------|---------|---------|
|-----|---------|---------|---------|---------|---------|---------|

| | | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| CFR – non HRA | 334.91 | 353.66 | 359.71 | 382.78 | 393.68 | 400.54 |
| CFR – HRA | 111.76 | 135.47 | 162.82 | 170.93 | 176.46 | 188.38 |
| Total CFR | 446.67 | 489.13 | 522.53 | 553.71 | 570.14 | 588.92 |
| Movement in CFR | 24.47 | 42.46 | 33.40 | 31.18 | 16.43 | 18.78 |
| | | | | | | |
| Net financing need for the year (above) | 19.38 | 36.86 | 27.20 | 24.26 | 9.11 | 10.78 |
| Less MRP/VRP and other financing movements | 5.09 | 5.60 | 6.20 | 6.92 | 7.32 | 8.00 |
| Movement in CFR | 24.47 | 42.46 | 33.40 | 31.18 | 16.43 | 18.78 |

Liability Benchmark

- 1.71 This prudential indicator was introduced in 2023/24. The Liability Benchmark (LB) is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow. The chart below shows the difference between the councils borrowing requirement (CFR), the council existing debt portfolio, the gap between two is the amount of future borrowing that the council will need to meet its commitments.
- 1.72 There are four components to the LB: -
- **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
 - **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
 - **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
 - **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.
- 1.73 The chart below shows the difference between the councils borrowing requirement (CFR), the council existing debt portfolio, the gap between two is the amount of future borrowing that the council will need to meet its commitments.

Liability Benchmark



1.74 Core Funds and Expected Investment Balances

1.75 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

| Year End Resources £m | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Fund balances (inc. reserves) | 68.31 | 75.62 | 60.00 | 38.00 | 38.00 |
| Capital receipts | 15.54 | 20.00 | 12.00 | 4.00 | 4.00 |
| Provisions | 3.50 | 3.50 | 3.00 | 3.00 | 3.00 |
| Other | 2.22 | 2.00 | 0.00 | 0.00 | 0.00 |
| Total core funds | 89.57 | 101.12 | 75.00 | 45.00 | 45.00 |
| Working capital | (7.29) | (7.00) | 0.00 | 0.00 | 0.00 |
| Under borrowing | 74.75 | 98.12 | 60.00 | 30.00 | 30.00 |
| Expected investments | 22.11 | 10.00 | 15.00 | 15.00 | 15.00 |

Minimum Revenue Provision Policy Statement

- 1.76 MRP is an annual charge that Councils are required to pay for their debt liability in respect of capital expenditure funded by borrowing, for both the general fund and the Housing Revenue Account debt. This capital expenditure is set out as part of the CFR calculation and updated regularly to reflect borrowing need changes and the resultant costs; it is important to ensure that the debt is repaid over a period commensurate with that over which the capital expenditure provides benefit.
- 1.77 The debt repayment is a revenue charge, the minimum revenue provision (MRP), although additional voluntary payments are allowed if required voluntary revenue provision (VRP).
- 1.78 Welsh Government regulations have been issued which require the Council to approve the **MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision set out.
- 1.79 Recommendation - The Council is recommended to approve the following MRP Statement for the 2024/25 financial year:**
- For capital expenditure incurred before 1 April 2020 or which in the future will be Supported Capital Expenditure, the MRP policy will be:
 - To calculate the MRP over a 50 year life on an on annuity basis using the Authority's average rate of borrowing.
 - From 1 April 2020 for all unsupported borrowing (including PFI and finance leases), the MRP policy is:
 - To charge MRP over the weighted average asset life on an annuity basis using the Authority's average rate of borrowing.
 - For HRA Historic and Settlement Debt, the MRP policy will be:
 - To calculate the MRP over a 60 year life on an on annuity basis using the Authority's average rate of borrowing.
 - For HRA Post Settlement Debt, the MRP policy will be:
 - To calculate the MRP over a weighted average asset life on an on annuity basis using the Authority's average rate of borrowing.
 - Repayments included in annual PFI or finance leases are applied as MRP.
 - In addition, the guidance allows for MRP to be deferred for assets under construction and this part of the guidance is adopted because the asset is not used by the authority until it is operational and therefore the MRP will match the life of the asset.
- 1.80 **MRP Overpayments** - A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. At the 31st of March 2023 the total balance of previous voluntary revenue provision (VRP) stands at £7.11 million, of which £1.41 million relates to the HRA. There is no intention to reclaim any of this at this point. Holding this provision is prudent and increases the resilience in the financing of the Capital Programme, particularly in the current period of uncertainty and volatility.

Risk Management

- 1.81 All large capital projects are managed under the Council’s Project Management Methodology, which incorporates risk identification and risk management. The Council also has a Risk Management Policy which is applied to all its projects and activities.
- 1.82 Capital projects involving contracts with 3rd party suppliers are also subject to established supply chain risk management measures across the Council. These include:
- Commercial Performance and Risk Board – established in Dec 22 and made up of representatives from across the Council, this Board monitors and manages supply chain risks and performance.
 - Supplier Financial Risk Management – supplier financial risks are regularly reviewed, and mitigation plans developed where risks in supplier’s financial standing are identified.
 - Contract Management Training programme – Contract Managers of Council contracts above £1m pa have to undertake mandatory contract management training developed by the Government Commercial College which is part of the Cabinet Office in UK Central Government.
 - Market Intelligence Expert Group (MIEG) – the Council is a member of the national MIEG where suppliers at risk and wider supply chain risks are identified and shared with the group’s members.
- 1.83 For all capital projects, project managers update financial forecasts on a monthly basis identifying any areas subject to risk of overspend, underspend or slippage.
- 1.84 There is also a degree of funding risk in the Capital Programme, reliant as it is on future capital receipts, and the ability to be able to afford borrowing if necessary. These risks need to be managed and monitored on a regular basis, and action taken where necessary.
- 1.85 Risk appetite in this context is the level of risk that the Council is prepared to accept to be exposed to at any point in time in relation to its activities. It involves knowing what risks the Council wishes to avoid, what risks it is willing to accept and what risks it is willing and able to manage (including by transferring them to a third party, e.g., through insurance).
- 1.86 The risks are regularly monitored and managed both financially and operationally in accordance with council processes.
- 1.87 The Council is willing to accept the risks set out in this Strategy for projects that have Council approval provided that the project management ensures the appropriate mitigations are put in place to bring the project within acceptable risks margins.
- 1.88 The key financial risks inherent in the Council’s Capital Programme include:

| Description of Risk | Potential Impact |
|--|---|
| The longer a project takes to come to fruition, the greater the risk that the financial cost of the project will have increased, both due to the additional staff time spent on the project and the inflationary impact on the costs involved in bringing the asset into operation. | May result in financial pressures on the other projects/ programmes and service delivery. |
| There is a degree of correlation between the length of time a project spends in the feasibility and development stage and an increased risk of project failure or abandonment. Should a project fail for any reason, the regulations require all capital costs to be returned to revenue, which may create significant pressures, depending on the level of spend at that point. | May result in additional revenue pressures on delivery/services. |

| | |
|--|---|
| <p>Project expenditure is higher than forecast estimates – in the current climate due to the rising cost of materials and access to skilled contractors in a limited labour market</p> | <p>May result in increased financial pressures/ limitations on future investment options.</p> |
| <p>Project delivery could be delayed – supply chain risks such as materials shortages.</p> | <p>May result in impact of grant funding should project be delays or an increase in costs if more expensive alternative supplies may be required to keep delays timescale on track.</p> |
| <p>Once a project has been delivered successfully the cash expended is then bound in the asset. In the case of the assets that are for service delivery and do not generate a rental income stream, the money invested in the asset is only recovered if and when the asset is sold at a future date. This carries inherent financial risks in that the asset may have decreased in value, depending on market conditions, or may not have increased in value sufficiently to mitigate the effects of inflation.</p> | <p>May result in increased financial pressures/limitations on future investment options.</p> |

Treasury Management Strategy

Background

- 1.89 The Council is required to operate a balanced budget which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned with cash being available when it is needed.
- 1.90 The second main function of the treasury management service is the funding of the Council's capital plans. These plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash involves arranging short or long-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.
- 1.91 The contribution the treasury management function makes to the authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, including 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.”

- 1.92 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities as they usually arise from capital expenditure and are separate from the day-to-day treasury management activities.

Current portfolio position

- 1.93 The overall treasury management portfolio as at 31st March 2023 and the estimated position as at 31st March 2024 are shown below for both borrowing and investments.

| Treasury Portfolio | | |
|---------------------------------|-----------------|-----------------|
| | Actual | Estimate |
| | 31st March 2023 | 31st March 2024 |
| | £'m | £'m |
| Borrowing | | |
| PWLB | 267.09 | 305.56 |
| LOBO Loans | 8.00 | 8.00 |
| Market/Other Local Authorities | 50.00 | 85.00 |
| Welsh Government | 17.40 | 0.00 |
| Other | 6.08 | 3.48 |
| Total External Borrowing | 348.57 | 402.04 |
| Investments | | |
| Banks (deposit accounts) | 22.11 | 10.00 |
| Total Investments | 22.11 | 10.00 |
| | | |
| Net Position | 326.46 | 392.04 |

Borrowing Strategy

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

1.95 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Head of Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp **fall** in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper **rise** in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

1.96 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

1.97 Policy on Borrowing in Advance of Need

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

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

1.100 Debt rescheduling

1.101 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates. If rescheduling is to be undertaken, it will be reported at the earliest meeting following its action.

1.102 New Financial Institutions as a source of Borrowing and / or types of Borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

1.103 Approved Sources of Long and Short term Borrowing

| On Balance Sheet | Fixed | Variable |
|--|--------------|-----------------|
| PWLB | ● | ● |
| Municipal bond agency | ● | ● |
| Government/Local authorities | ● | ● |
| Banks | ● | ● |
| Pension funds | ● | ● |
| Insurance companies | ● | ● |
| Market (long-term) | ● | ● |
| Market (temporary) | ● | ● |
| Market (LOBOs) | ● | ● |
| Stock issues | ● | ● |
| Local temporary | ● | ● |
| Local Bonds | ● | |
| Local authority bills | ● | ● |
| Overdraft | | ● |
| Negotiable Bonds | ● | ● |
| Internal (capital receipts & revenue balances) | ● | ● |
| Commercial Paper | ● | |
| Medium Term Notes | ● | |
| Finance leases | ● | ● |

Capital Prudential and Treasury Indicators

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

Ratio of financing costs to net revenue stream

1.105 This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue budget or HRA rental income (net revenue stream). The estimates of financing costs include current commitments and the proposals in this budget report. The future net revenue streams are estimated based on worst case scenarios.

| £'m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----------------|---------|---------|---------|---------|---------|---------|
| Financing Costs | 12.13 | 12.90 | 13.39 | 12.33 | 13.00 | 13.48 |

| | | | | | | |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Revenue Stream | 326.54 | 340.73 | 341.68 | 343.03 | 344.78 | 346.95 |
| Council Fund | 3.7% | 3.8% | 3.9% | 3.6% | 3.8% | 3.9% |
| Financing Costs | 4.77 | 5.06 | 5.97 | 6.77 | 7.17 | 7.45 |
| Net Revenue Stream | 27.92 | 30.00 | 30.60 | 31.21 | 31.84 | 32.47 |
| HRA | 17.1% | 16.9% | 19.5% | 21.7% | 22.5% | 23.0% |

HRA Ratios

1.106 This indicator shows the total outstanding debt attributable to the Housing Revenue Account (HRA) and the average debt per dwelling. The total debt is made up of

- The self-financing buyout
- Borrowing required for capital works to the existing housing stock (historic and planned)
- Borrowing required for the construction of new Council Housing (historic and planned)

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Estimate | Estimate | Estimate | Estimate | Estimate |
| HRA debt | £135.48m | £162.87m | £171.05m | £176.65m | £188.65m |
| Number of HRA dwellings | 5,520 | 5,524 | 5,612 | 5,684 | 5,734 |
| Debt per dwelling | £24,543 | £29,484 | £30,479 | £31,078 | £32,900 |

Maturity structure of borrowing

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

1.108 The Council is asked to approve the following treasury indicators and limits:

| Maturity structure of borrowing | | |
|--|--------------|--------------|
| | Lower | Upper |
| Under 12 months | 0% | 40% |
| 12 months to 2 years | 0% | 40% |
| 2 years to 5 years | 0% | 40% |
| 5 years to 10 years | 0% | 40% |
| 10 years to 20 years | 0% | 40% |
| 20 years to 30 years | 0% | 40% |
| 30 years to 40 years | 0% | 40% |
| 40 years to 50 years | 0% | 40% |
| 50 years to 60 years | 0% | 40% |

1.109 Affordability prudential indicators

1.110 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following borrowing indicators:

Borrowing Indicators

1.111 The capital expenditure plans set out in the capital strategy provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

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

Change in External Debt

| £'m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| Council Fund | | | | | | |
| Debt at 1st April | 242.37 | 236.81 | 293.72 | 329.81 | 352.94 | 363.91 |
| Expected change in Debt | (5.56) | 56.91 | 36.09 | 23.13 | 10.97 | 6.94 |
| Estimated Gross Debt at 31st March | 236.81 | 293.72 | 329.81 | 352.94 | 363.91 | 370.85 |
| CFR | 334.93 | 353.72 | 359.81 | 382.94 | 393.91 | 400.85 |
| Under / (Over) Borrowing | 98.12 | 60.00 | 30.00 | 30.00 | 30.00 | 30.00 |
| HRA | | | | | | |
| Debt at 1st April | 104.30 | 111.76 | 135.47 | 162.82 | 170.93 | 176.46 |
| Expected change in Debt | 7.46 | 23.71 | 27.35 | 8.11 | 5.53 | 11.92 |
| Estimated Gross Debt at 31st March | 111.76 | 135.47 | 162.82 | 170.93 | 176.46 | 188.38 |
| CFR | 111.76 | 135.47 | 162.82 | 170.93 | 176.46 | 188.38 |

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

1.114 The Head of Financial Services (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the next few years. This view considers current commitments, existing plans, and the proposals in this budget report. The projected increase in the CFR over the medium and longer term must be reviewed annually to ensure that the capital investment plans remain affordable, prudent and sustainable.

1.115 Treasury Indicators: limits to borrowing activity

Operational Boundary

1.116 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

| £'m | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|----------------------|---------|---------|---------|---------|---------|
| Operational Boundary | 499.00 | 533.00 | 565.00 | 582.00 | 601.00 |

Authorised Limit

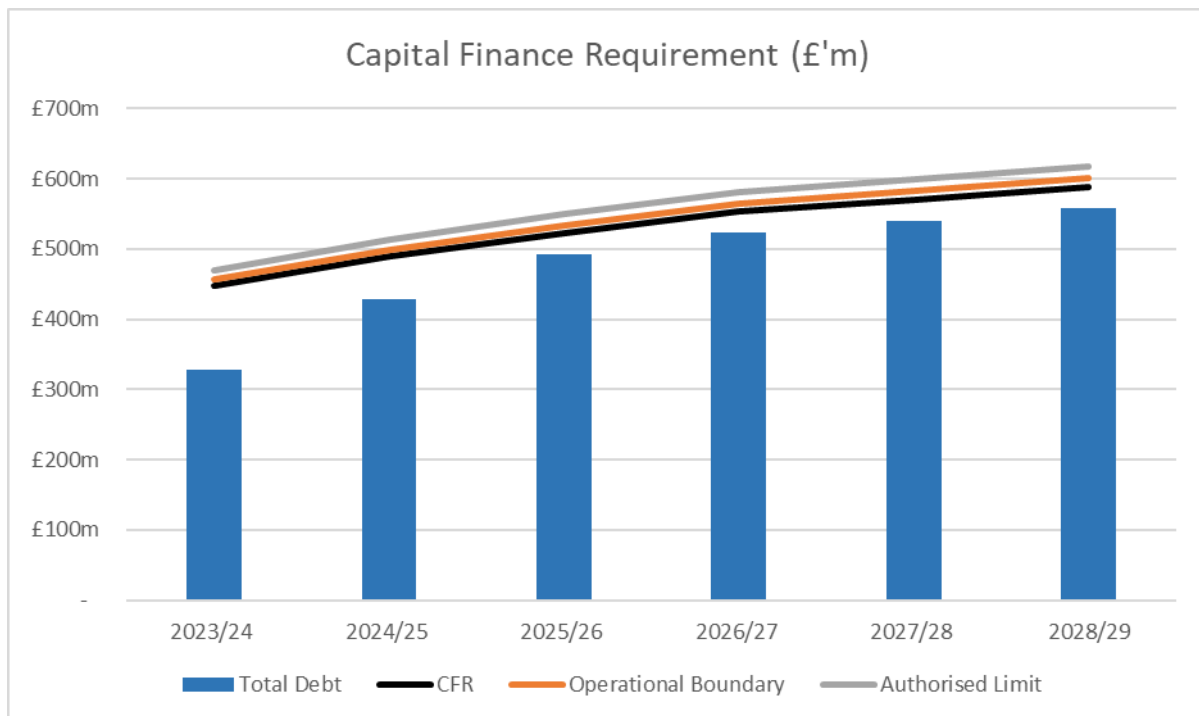
1.117 This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1.118 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

1.119 The Council is asked to approve the following authorised limit.

| £' m | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|------------------|---------|---------|---------|---------|---------|
| Authorised Limit | 514.00 | 549.00 | 581.00 | 599.00 | 618.00 |

1.120 The chart below shows the relationship between the Total Debt, the Capital Financing Requirement (CFR), the Operational Boundary and Authorised Limit.



Annual Investment Strategy

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

The Council's investment policy has regard to the following.

- Welsh Government's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

- 1.122 The above guidance from the Welsh Government and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are categories of 'specified' and 'non-specified' investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year except deposits with local authorities which can be for any period.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e., an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- Lending limits (amounts and maturity), for each counterparty will be set in conjunction with Link's

matrices.

- Transaction limits are set for each type of investment.
- This authority will set a limit for the amount of its investments which are invested for longer than 365 days.
- Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.
- All investments will be denominated in sterling.
- As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Welsh Government has passed a statutory override to allow Welsh local authorities time to adjust their portfolio of all pooled investments by delaying implementation of IFRS 9 for five years until 31st March 2023. More recently, a further extension to the over-ride to 31st March 2025 has been agreed by Welsh Government.

1.123 The council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance.

1.124 Creditworthiness policy

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

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

1.126 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this 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 Ultra-Short Dated Bond Funds with a credit score of 1.25 |
| Light pink | 5 years for Ultra-Short Dated Bond Funds 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 |

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.

Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.

1.127 The Link Asset Services' creditworthiness service uses a wider array of information other than just

primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

1.128 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.

1.129 Credit ratings will be monitored daily through use of the Link Group's 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 European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

1.130 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, as well as information on any external support for banks to help support its decision making process.

1.131 Creditworthiness

1.132 Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

1.133 CDS Prices

1.134 Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

1.135 Limits

1.136 Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups and sectors.

- Non-specified treasury management investment limit. The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 10% of the total treasury management investment portfolio.
- Country limit. The Authority has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in paragraph 3.65. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

1.137 Other limits. In addition:

- no more than 5% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions;
- sector limits will be monitored regularly for appropriateness.

Investment strategy

1.138 **In-house funds** - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second part of 2024 so an agile investment strategy would be appropriate to optimise returns.

1.139 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

1.140 Investment returns expectations

1.141 The current forecast shown below, includes a forecast for Bank Rate to reach 5.25% in Q4 2023. The suggested budgeted investment earnings rates provided by Link Group for returns on investments placed or periods up to about three months during each financial year are as follows:

| | |
|-------------------|-------|
| 2023/24 remainder | 5.30% |
| 2024/25 | 4.70% |
| 2025/26 | 3.20% |
| 2026/27 | 3.00% |
| 2027/28 | 3.25% |
| Years 6 to 10 | 3.25% |
| Years 10+ | 3.25% |

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

1.142 Investment treasury indicator and limit

1.143 The Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each yearend.

1.144 The Council is asked to approve the following treasury indicator and limit:

| Upper limit for principal sums invested for longer than 365 days | | | |
|--|---------|---------|---------|
| £m | 2024/25 | 2025/26 | 2026/27 |
| Principal sums invested for longer than 365 days | £10m | £10m | £10m |
| Current investments as at 31.12.23 in excess of 1 year maturing in each year | Nil | Nil | Nil |

1.145 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts, money market funds and short-dated deposits.

1.146 Investment performance / risk benchmarking

1.147 This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA.

1.148 End of Year Investment Report

1.149 At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report

Treasury Management Practice – Credit and Counterparty Risk Management

1.150 **Specified Investments** - All such investments will be sterling denominated with maturities up to maximum of 1 year (except for deposits with local authorities which can be for any period), meeting the minimum 'high' quality criteria where applicable. (If a deposit is made for say 2 years, it starts as being a non-specified investment and remains as a non-specified investment even when it's time to maturity falls under 12 months). The criteria, time limits and monetary limits applying to institutions or investment vehicles are.

| Institution | Maximum Investment per Group/Institution | Maximum Length | Credit Rating/Other Assessment of Risk |
|-------------------------|--|----------------|--|
| UK Banks | £30m | Up to 364 days | As per Link's matrices |
| Foreign Banks | £5m | Up to 364 days | As per Link's matrices |
| Other Local Authorities | £25m | Up to 5 years | N/A |

1.151 **Non specified Investments** - These are any investments which do not meet the specified investment criteria. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

| Institution | Maximum Investment per Group/Institution | Maximum Length | Credit Rating/Other Assessment of Risk |
|--------------------------------|---|----------------|--|
| UK Banks | £10m (£5m limit with any one institution) | Up to 2 years | As per Link's matrices |
| Foreign Banks | £2m | Up to 2 years | As per Link's matrices |
| Money Market Funds (max. of 5) | £10m | N/A | All are AAA rated |
| Other Local Authorities | £10m | Up to 5 years | N/A |

Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.

1.152 In addition to treasury management investment activity, local authorities can utilise their powers to borrow in order to invest in other financial assets. Such activity includes loans supporting service outcomes, investment in or loans to subsidiaries, and investment property portfolios primarily for a financial return. Whilst these impact on treasury management activity, they are managed outside of this Treasury Management Strategy and approved separately as part of the Council's Capital expenditure plans arising from its Capital Strategy. Regulator concerns in relation to the extent of this activity have resulted in recent updates to CIPFA professional Codes of Practice including the

Treasury Management Code. Whilst no national monetary, financial, or other controls or limits are in place currently, regulations have been updated to ensure the risks and implications of such activities are clearly governed and understood over a long term period.

1.153 Approved Countries for Investments

1.154 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, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

1.155 Based on lowest available rating

- **AAA**

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

- **AA+**

| | |
|---------|--------|
| Canada | U.S.A. |
| Finland | |

- **AA**

| | |
|-----------------|--|
| Abu Dhabi (UAE) | |
|-----------------|--|

- **AA-**

| | |
|---------|--------|
| Belgium | Qatar |
| U.K. | France |

1.156 **Prospect for Interest rates** - The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates, their latest update is provided at Appendix C and D.

Treasury Management Scheme of Delegation

1.157 The governance of the key decisions is set out below:

➤ Full Council

- approval of annual strategy

➤ Governance and Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

➤ Cabinet

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers.

The Treasury Management Role of the Section 151 Officer

1.158 The role of the section 151 officer is set out below:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

1.159 The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both codes, is a major extension of the functions of this role:

- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
 - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
 - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
 - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
 - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
 - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Appendix A - Capital Programme 2024/29

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|---|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Education | | | | | | | |
| Ysgol Bro Hyddgen | 0.500 | 0.500 | 20.338 | 22.214 | 3.100 | | 46.652 |
| Welshpool C in W School | 0.115 | | | | | | 0.115 |
| Ysgol Gymraeg y Trallwng | 0.638 | | | | | | 0.638 |
| Ysgol Brynllwarch | 3.497 | 4.989 | | | | | 8.486 |
| Ysgol Cedewain | 12.503 | 0.370 | | | | | 12.873 |
| Sennybridge School | 0.100 | 2.000 | 8.663 | 0.200 | | | 10.963 |
| Calon Y Dderwen | 0.038 | 0.300 | 7.000 | 11.196 | 0.600 | | 19.133 |
| Brecon Primary | 0.060 | 0.500 | 10.000 | 7.389 | 0.500 | | 18.449 |
| Other 21st Century School Schemes | 0.383 | | | | 10.000 | 10.000 | 20.383 |
| Schools Major Improvements | 6.227 | 3.953 | 2.500 | 2.500 | 2.500 | 1.000 | 18.679 |
| Schools Other | 0.539 | | | | | | 0.539 |
| Free School Meals Grant | 2.016 | | | | | | 2.016 |
| Childcare Grant | 0.614 | | | | | | 0.614 |
| | 27.229 | 12.612 | 48.501 | 43.498 | 16.700 | 11.000 | 159.540 |
| Highways, Transport and Recycling | | | | | | | |
| Integrated Transport | 1.840 | 0.025 | | | | | 1.865 |
| Highways Lighting | 1.096 | 1.000 | 1.000 | 1.000 | 1.000 | 1.000 | 6.096 |
| Structures Strengthening | 0.650 | 0.500 | 0.100 | 0.200 | 3.000 | 2.950 | 7.400 |
| Structural Maintenance - Roads | 6.500 | 5.000 | 5.000 | 5.000 | 5.000 | 5.000 | 31.500 |
| Salt Barns | | 0.808 | | | | | 0.808 |
| Safe Route In Communities | 0.287 | | | | | | 0.287 |
| Newtown De-Trunking Works | 0.117 | | | | | | 0.117 |
| Countryside & Outdoor Recreation | 1.089 | 1.230 | 0.015 | 0.015 | 0.015 | 0.015 | 2.378 |
| Recycling | 0.789 | 1.139 | | | | | 1.928 |
| Local Transport Fund | 0.200 | | | | | | 0.200 |
| Vehicle Replacement | 1.503 | 5.457 | 3.710 | 2.651 | 4.949 | 2.254 | 20.524 |
| Major Strategic Schemes | 1.605 | 1.500 | 1.500 | 1.500 | 1.500 | 1.500 | 9.105 |
| Flood Alleviation Schemes | 2.055 | 0.250 | | | | | 2.305 |
| Active Travel Fund | 2.141 | | | | | | 2.141 |
| | 19.871 | 16.909 | 11.325 | 10.366 | 15.464 | 12.719 | 86.654 |
| Property, Planning and Public Protection | | | | | | | |
| Regulatory Services | 0.233 | | | | | | 0.233 |
| County Farms | 0.492 | 0.180 | | | | | 0.671 |
| Business Parks | 0.132 | | | | | | 0.132 |
| Office Accommodation | 0.179 | 0.175 | | | | | 0.354 |
| Depots | 0.068 | | | | | | 0.068 |
| | 1.104 | 0.355 | 0.000 | 0.000 | 0.000 | 0.000 | 1.459 |

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Community Development | | | | | | | |
| Libraries | 0.280 | 0.144 | | | | | 0.424 |
| Sports and Leisure Centres | 1.250 | 0.890 | | | | | 2.140 |
| | 1.530 | 1.033 | 0.000 | 0.000 | 0.000 | 0.000 | 2.563 |
| Housing | | | | | | | |
| General Fund Housing | 1.017 | | | | | | 1.017 |
| Safe, Warm & Secure | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 1.200 |
| Co2I | 0.048 | 0.048 | 0.048 | 0.048 | 0.048 | 0.048 | 0.288 |
| Disabled Adaptation | 1.200 | 1.200 | 1.300 | 1.300 | 1.300 | 1.300 | 7.600 |
| Empty Homes Grant | 0.100 | 0.100 | | | | | 0.200 |
| Enable | 0.262 | | | | | | 0.262 |
| Landlord Loans | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 0.200 | 1.200 |
| | 3.027 | 1.748 | 1.748 | 1.748 | 1.748 | 1.748 | 11.767 |
| Economy and Digital Services | | | | | | | |
| Economic Development | 2.426 | 5.435 | | | | | 7.862 |
| Levelling Up | 3.014 | 16.138 | | | | | 19.152 |
| Improving Care Services | 0.013 | | | | | | 0.013 |
| IT Refresh Strategy | 0.166 | 0.155 | 0.376 | 0.317 | 0.574 | 0.272 | 1.860 |
| IT Infrastructure | 0.025 | | | | | | 0.025 |
| Other IT | | 0.080 | | | | | 0.080 |
| System Rationalisation | 0.005 | 0.095 | | | | | 0.100 |
| Cloud Services | 0.050 | 0.278 | | | | | 0.328 |
| Unified Communications | | 0.046 | | | | | 0.046 |
| Careline Alarms | 0.005 | 0.012 | | | | | 0.017 |
| | 5.704 | 22.239 | 0.376 | 0.317 | 0.574 | 0.272 | 29.482 |
| Childrens' Services | | | | | | | |
| Priory C In W Primary School | 0.379 | | | | | | 0.379 |
| | 0.379 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.379 |
| Adult Services, Commissioning | | | | | | | |
| Care Homes | 0.334 | | | | | | 0.334 |
| Community Equipment Store Roof | 0.020 | 0.245 | | | | | 0.265 |
| Innovative Use of Robotics | 0.392 | | | | | | 0.392 |
| Community Equipment | 0.130 | | | | | | 0.130 |
| | 0.877 | 0.245 | 0.000 | 0.000 | 0.000 | 0.000 | 1.122 |
| Finance | | | | | | | |
| Small Capital Bids | | 0.524 | 0.500 | 0.500 | 0.500 | 0.500 | 2.524 |
| Pipeline Projects | | 7.194 | 4.037 | 3.161 | | | 14.393 |
| Mid Wales Growth Deal | | 2.000 | 2.000 | 2.000 | 2.000 | 2.000 | 10.000 |
| | 0.000 | 9.718 | 6.537 | 5.661 | 2.500 | 2.500 | 26.917 |
| Total | 59.721 | 64.859 | 68.487 | 61.590 | 36.986 | 28.239 | 319.882 |

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | £'m | £'m | £'m | £'m | £'m | £'m | £'m |
| Financed by | | | | | | | |
| Supported Borrowing | 4.562 | 4.607 | 4.582 | 4.582 | 4.582 | 4.582 | 27.497 |
| Prudential Borrowing | 16.265 | 18.285 | 5.947 | 23.174 | 11.428 | 7.678 | 82.778 |
| Welsh Government Grant* | 24.959 | 11.657 | 42.973 | 21.913 | 6.500 | 6.500 | 114.502 |
| General Capital Grant | 4.711 | 4.705 | 4.705 | 4.705 | 4.705 | 4.705 | 28.236 |
| Other Grants | 4.269 | 15.816 | | | | | 20.085 |
| Capital Receipts | 3.715 | 3.186 | 6.194 | 4.248 | 4.248 | 2.248 | 23.839 |
| Revenue/Reserves | 1.240 | 6.602 | 4.086 | 2.968 | 5.523 | 2.526 | 22.945 |
| | 59.721 | 64.859 | 68.487 | 61.590 | 36.986 | 28.239 | 319.882 |
| Housing Revenue Account | | | | | | | |
| Welsh Housing Quality Standard | 9.740 | 5.645 | 5.693 | 6.646 | 6.059 | 10.517 | 44.302 |
| Community Alarms | | 0.120 | | | | | 0.120 |
| Compliance 100 | 0.280 | 0.250 | 0.250 | 0.250 | 0.250 | 0.250 | 1.530 |
| Fit For Life | 1.143 | 1.450 | 0.250 | 0.250 | 0.250 | 0.250 | 3.593 |
| Green Powys | 0.330 | 0.575 | 0.575 | 0.500 | 0.500 | 0.500 | 2.980 |
| Love Where You Live | 0.400 | 0.500 | 0.500 | 0.150 | 0.150 | 0.150 | 1.850 |
| Housing R&M System | 0.110 | | | | | | 0.110 |
| Housing Vehicles | 0.790 | | | | | | 0.790 |
| New Builds / Repurchase | 7.332 | 29.026 | 33.360 | 14.111 | 12.342 | 14.483 | 110.654 |
| | 20.125 | 37.566 | 40.628 | 21.907 | 19.551 | 26.151 | 165.929 |
| Financed by | | | | | | | |
| Prudential Borrowing | 8.514 | 24.934 | 28.996 | 10.275 | 7.919 | 14.519 | 95.159 |
| Welsh Government Grant* | 6.710 | 5.832 | 5.832 | 5.832 | 5.832 | 5.832 | 35.870 |
| Capital Receipts | 1.000 | 1.000 | | | | | 2.000 |
| Revenue/Reserves | 3.900 | 5.800 | 5.800 | 5.800 | 5.800 | 5.800 | 32.900 |
| | 20.125 | 37.566 | 40.628 | 21.907 | 19.551 | 26.151 | 165.929 |

*Subject to approval by Welsh Government

Appendix B - Capital Receipt Policy

Introduction

This policy is introduced to provide guidance to Senior Managers on the rules governing the application of Capital Receipts in Powys County Council. This guidance has been drafted in line with the two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These publications are:

- The Prudential Code for Capital Finance in Local Authorities
- The Code of Practice on Local Authority Accounting

The two publications referred to above contain guidance on capital receipts and local authority accounting that complements guidance issued by the Welsh Government.

In England and Wales, capital receipts are defined by Section 9(1) of the Local Government Act 2003 to include all instances where property, plant or equipment is disposed of for cash (subject to a £10,000 de minimis). All references to Capital Receipts in this policy therefore refers to this definition.

Application

This guidance should be read alongside any relevant direction issued by Welsh Ministers.

Use of Capital Receipts

The current policy for the use of Capital Receipts is contained in the Corporate Asset Policy.

- Capital Receipts will normally be credited to the Central Fund and will be used to progress the Council's principal objectives defined in the Corporate Improvement Plan. However, up to 4% of the capital receipt may be used by Property, as permitted to cover directly attributable costs of sale.
- Capital receipts from the sale of Farm or Agricultural land under the County Farm Estate and property vested in the HRA will be subject to the following apportionment:

This policy proposes the use of Capital Receipts to continue to be based on the following:

| Type | Service Area | Corporate |
|-------------------------------|--------------|-----------|
| Agricultural | 0% | 100% |
| HRA Dwellings and Land | 100% | 0% |
| Home finder receipts | 100% | 0% |
| Vehicles | 100% | 0% |
| All other properties / assets | 0% | 100% |

Appendix C – Economic Background - December 2023

The Council has appointed Link Group as its treasury advisor who have provided the following Economic Background.

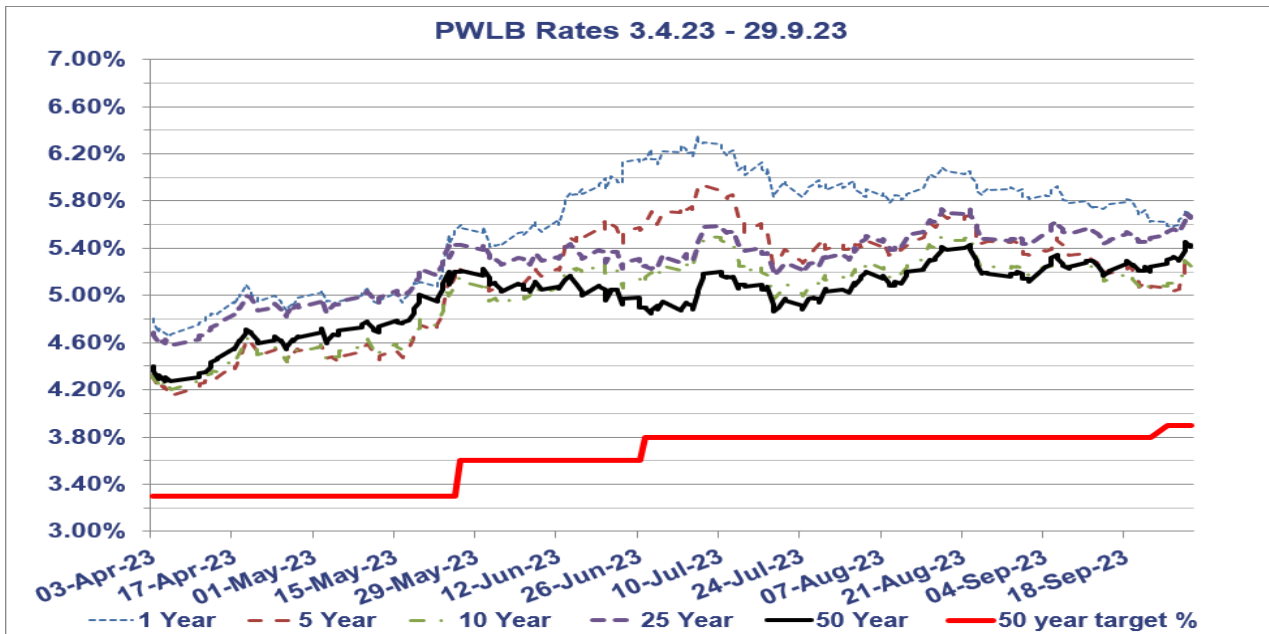
- The first half of 2023/24 saw:
 - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
 - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
 - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
 - Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
 - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).
- The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.
- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate

since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

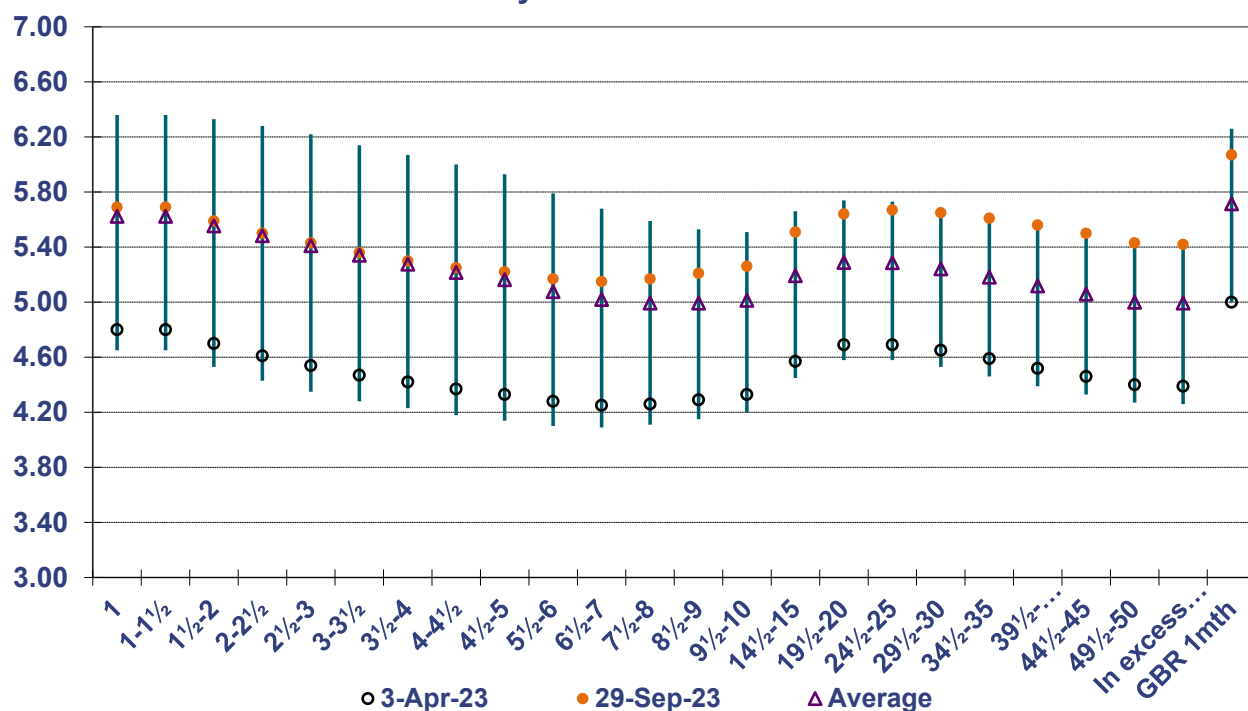
- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.
- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”, citing the rise in global bond yields and the upside risks to inflation from “energy prices given events in the Middle East”. So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be “sufficiently restrictive for sufficiently long” and that the “MPC’s projections indicate that monetary policy is likely to need to be restrictive for an extended period of time”. Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23



PWLB Certainty Rate Variations 3.4.23 to 29.9.23



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 4.65% | 4.14% | 4.20% | 4.58% | 4.27% |
| Date | 06/04/2023 | 06/04/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| High | 6.36% | 5.93% | 5.51% | 5.73% | 5.45% |
| Date | 06/07/2023 | 07/07/2023 | 22/08/2023 | 17/08/2023 | 28/09/2023 |
| Average | 5.62% | 5.16% | 5.01% | 5.29% | 5.00% |
| Spread | 1.71% | 1.79% | 1.31% | 1.15% | 1.18% |

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also). Appendix D – Interest Rate Forecasts – 7th November 2023

Appendix D – Interest Rate Forecasts – December 2023

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. These are forecasts for certainty rates, gilt yields plus 80bps:

| Link Group Interest Rate View | 07.11.23 | | | | | | | | | | | | |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
| BANK RATE | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.25 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 3 month ave earnings | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.30 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 6 month ave earnings | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.40 | 3.10 | 3.10 | 3.10 | 3.10 | 3.10 |
| 12 month ave earnings | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.50 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 |
| 5 yr PWLB | 5.00 | 4.90 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.50 | 3.50 | 3.50 |
| 10 yr PWLB | 5.10 | 5.00 | 4.80 | 4.70 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 25 yr PWLB | 5.50 | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.20 | 4.10 | 4.10 | 4.00 | 4.00 | 4.00 |
| 50 yr PWLB | 5.30 | 5.10 | 4.90 | 4.70 | 4.50 | 4.30 | 4.10 | 4.00 | 3.90 | 3.90 | 3.80 | 3.80 | 3.80 |